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The Limits of Foreign Aid: Responsibility without Authority Case: The Brazilian Drought

*By John Hickey**

Congressman Cooley: "How much has gone into Brazil for relief purposes?"

Mr. Siracusa: "Nothing . . . I do not know of any way in which we can actually send this food on our own."

Congressman Simpson: " You cannot force food on Brazil?"

Mr. Snow: "No, sir."

In 1958 the northeastern states of Brazil suffered a devastating drought. About 1.8 million of the 2.6 million population of the sertao were directly afflicted.[1] About 200,000 of the unfortunate fled the area—by foot, truck, bus—to seek refuge in Goias, Minas Gerais, Sao Paulo and other states. In addition, a quarter of a million made the trek to the coastal or intermediate regions of the northeast to wait out the disaster. The sertanejo normally led at best a miserable existence, poorly fed, poorly sheltered. almost universally without medical care. In fact, he scratched out a living so close to bare survival that an American official was moved to remark during the drought, when the horrible conditions in the relief camps for the flagelados ("the castigated" as the population is known) caused the local press to term the camps the New World's Dachaus and Buchenwalds, that the

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* Mr. Hickey has written a number of articles for this journal, including "Latin America's Conception of the Good-Neighbor Policy" (Volume XII, No. 1) and "Barriers to Inter-American Trade" (Volume X, No. 1).

[1] The total population of the northeast, as here defined, is about 10.5 million. The population of the sertao is put at 2.6 million.

impact of the revelations was lost in the narrowness of the contrast with "normal" living standards in the area. The tragic exodus was a recurring feature of the area's history. The droughts come regularly, the flagelados cling fiercely to their unfriendly land as long as possible, they depart only under the most desperate pressure for existence, and at the first reports of rain, they traditionally have made their way back in one form or another.

In the course of the year 1958, the federal government devoted some nine percent of its income to drought relief, pouring perhaps nine billion cruzeiros into what President Kubitschek eventually called "a real war operation—help without limit." The state governments, normally impoverished, had little to spend on the extraordinary function. Rio do Norte reported income off fifty percent, Ceara thirty percent. And as was the custom in the smaller states, operating deficits were largely avoided by the simple device of dismissing personnel and closing out activity when funds ran out.

Production in this predominantly agricultural area, normally yielding a per-capita income less than one-third that of south and central Brazil, fell off badly. Output of sisal was down 8 percent, castor beans 30 percent, cotton 43 percent, oiticica 90 percent. By the end of 1958, seventy percent of the cattle were gone. The herds had been reduced by movement to other areas for water and pasture, by slaughtering to prevent complete loss, by death through thirst and starvation, and in some cases by hoof-and-mouth disease. Officials reported 200,000 tons of beef had been lost through shrinkage. One-sixth of the value of the beef cattle had been lost. And even more important was the loss in reproductive capacity: heifers maturing in the year were permanently damaged for reproductive purposes; mature cows became temporarily barren. The industry would require two years to recover.

The general level of commercial activity in the area fell off fifteen percent, despite the heavy injections of assistance from the federal government.

An agricultural attaché of the American Embassy, making a 2,000 kilometer trip by jeep from Fortaleza through the length

of Ceara to Salgueiro (Pernambuco) and thence to Recife, reported in September that at least one-half of the farm homes had been abandoned or left in care of members of the family least able to move; household drinking water was everywhere a problem, food was sharply limited in quantity and variety; many interior families were forced to eat their meager stocks of rice, beans and corn normally retained for seed. The palma cactus had proved a succulent cattle feed and was being widely planted for that purpose; it sustained cattle surprisingly well.

Turning to policy recommendations, the official reported that Title I, P.L. 480 corn supplied at this time *would not have the impact on livestock production that it might have had if supplied six months previously.* But, he went on to report, there could be no doubt that imported corn in larger quantities was needed for both feed and food, for thousands of families were on short rations. (The observations were made in August and early September).

In the course of the disaster, the National Catholic Welfare Committee (U. S.) imported into the area upwards of one thousand tons of P.L. 480 Title II powdered milk. The United Nations International Children's Emergency Fund proceeded with its continuing program not immediately related to the drought. A variety of private charities, mostly linked to religious organizations, assisted. The state of Pernambuco spent about 35 million cruzeiros to accelerate make-work projects but the other states had little with which to work. The federal government's Department Against Droughts spent around 5 billion cruzeiros, and the highway department and the armed forces perhaps 4 billion. Of the total of 9 billion, some two-thirds was distributed in Ceara which had forty percent of the flagelados. And there were of course spot operations: In April and May the federal government organized an emergency airlift to bring food into the area, and the U. S. Government supplied a Globemaster C-124 to help. In October and November the federal government repeated the operation, this time without U. S. assistance. In November and December the armed forces helped evacuate 40,000 flagelados from the Fortaleza area.

There was however no independent non-political private charity group covering the entire area which could coordinate the effort. There was a Legiao Brasileira de Assistencia which was supported out of tax funds and had political overtones. The efforts of the church were not adequately coordinated. Thus the whole assistance job tended to proceed in a political atmosphere—with all the bureaucratic confusion, graft and inadequacy of planning which might be expected to accompany it.

It was reported, for instance, that large drums of powdered milk labelled "U. S. Department of Agriculture: Not for Resale" appeared in small commercial establishments, suggesting strongly that they had failed to reach the flagelados for whom they were intended. There were reports that first class cereals would move into government warehouses and immediately emerge as messy weevily mixtures, while first-class cereals seemed to become available for commercial sale. It was reported that relief rations and remuneration per day were sometimes held back by local administrators to the extent of twenty-five percent. And that the flagelados working on relief irrigation works were paid in kind—and given such things as brilliantine in lieu of wages.

Again, it was reported that with the bureaucratic slowness of Rio to remit funds, usurious commercial practices arose whereby, for instance, make-work project workers were paid in chits which were discounted by a third or a half when traded for supplies, after which the government redeemed them for the merchants at full value. And beyond the irregularities which were reported, there was the central frightening problem of transportation and distribution—many of the persons most in need lived in isolated groups too far distant from distribution centers to be reached effectively.

And it was only to be expected that the make-work program would be incompletely engineered and planned. As a U. S. official reported:

> "Workers frequently were sent to a job where there were no tools at all, not even picks, shovels and wheel barrows. In other instances, several hundred workers were sent to sites where there were steam shovels, earth carriers, and bull dozers (also picks and shovels). In one case in western Pernambuco a crew

> of forty men was used to shovel dirt into a two cubic yard drag-line shovel perfectly capable of picking up its own dirt. The motor of the drag-line, kept working all day, cost more in diesel fuel alone than the wages of all the personnel working at the project site. In other instances, the roads constructed with such effort too often were useless because they lacked necessary bridges or they connected with no other roads or they were improperly drained or their surfaces were left unimproved so that the first rains would wash them away.
>
> "Few of the make-work projects appeared to attack the basic problems of a dry area. Though grandiose plans for re-directing rivers, building canals and dams, and drilling deep wells sprouted in profusion during 1958, apparently none of them had ever been worked into a concrete program in the preceding years of good weather. Consequently, when opportunity presented itself in the form of several hundred thousand people with nothing better to do, the essential elements of a basic program were wanting. This is especially strange since the drought could not have been a surprise to anyone."

All in all, the operation was too large for politics not to take over. Since this was an election year, all political groupings made an effort to see that food and funds moved freely into the area immediately before the October election. Thereafter, supplies and funds semed to run out and by mid-October mass dismissals were the order of the day, with a cut in the number employed by the Department Against Droughts from 530,000 in September to under 250,000 in October. Hunger marches to the coast multiplied, riots developed, the Federal Government carried out the special evacuation program in November and December.

By the late months of the year, deputies were arriving in Rio to warn that unless a suitable effort was forthcoming, people would be running wild in the streets, killing and looting in their desperation. The Minister of Transportation returned to Rio in December from a visit to the stricken area to confirm that the situation was "catastrophic", and put crop damage at $75 million. Meanwhile, other travelers returned from the region to report that in urban centers in the most depressed sections, con-

struction of comfortable homes for the well-to-do seemed to be going along very nicely—apparently financed and started after the drought had become a grave disaster—and there were questions as to whether some of the drought-relief money was going for such longer-range objectives!

Late in December there were gentle showers. A fortnight later they had turned into downpours. Flash floods followed. Now the drought was left for the historian to record.[2]

The Role of the United States. In recent years, perhaps unconsciously as far as most Americans are concerned and certainly without consultation with the foreign peoples involved, the United States Government has assumed a responsibility as far as the welfare of the world is concerned that apparently knows no limit. It is a noble Christian sentiment certainly to be concerned with the well-being of other people, to sense that anyone's poverty is our poverty, that anyone's disaster is our disaster, that anyone in need has a call upon us.

But the responsibility which has been assumed by the United States Government goes beyond this. If a government fails its own people, it is the responsibility of the United States, even though the people may not recognize it in the foreign land and even though they may therefore be willing to have that government continue the policies that have proven themselves unsound. If a political group brings disaster on its country by unsound economic measures, it is the responsibility of the United States Government. If politicians loot a local treasury, it is the responsibility of the United States Government. If local tradesmen are unwilling to forego the opportunity to exploit for their selfish benefit a national flood or earthquake or drought, it is the responsibility of the United States Government.

How we came to accept such a responsibility is not yet clear. How mass political pressure groups, whether women's clubs or others, were brainwashed into such a position is not clear. In this paper, however, we are not concerned with tracking down the origin of this policy. Instead, we pose the question: *How do*

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[2] Data regarding the period of the drought are drawn largely from official U. S. reports.

you exercise such responsibility without authority? Can a government successfully discharge a responsibility without authority? If not, is it not clear that the United States Government must either limit severely the responsibility it has been assuming or be prepared to reach for authority to which it is not entitled under international law and which would constitute a serious invasion of the sovereignty of free peoples everywhere?

If local politicians loot a treasury, do you merely refill the treasury time and time again since, clearly, authority has not accompanied the self-assumed responsibility and a sovereign government will not readily yield up the authority—if indeed the U. S. actually sought it?

If a country expropriates the chief producing properties on which the well-being of its population depends, and if in the process the economy collapses, do you merely replace the damaged assets time and again without end and put the victims on a permanent dole since, clearly, authority does not accompany the self-assumed responsibility?

A practical student of the problem might say that the real limiting factor is the absence of any fatboy able to support financially the responsibility which is involved. Even the United States lacks the resources to do the job. And it is interesting to note that the debate on the extent to which the U. S. should assume responsibility has taken the form in the Congress of discussions of our gross national product and its capacity to support steadily increasing drains in support of the thesis that we "cannot back down on this responsibility." The author believes that the central issue is not the financial matter. It is simply that responsibility of this magnitude cannot be implemented without authority. And the invasion of free peoples' rights everywhere which a grab for such authority would involve would be contrary to everything for which this country stands. Look now at the Brazilian case.

The U. S. Congress and the Brazilian Drought. In May 1958 the U. S. Congress became concerned with the Brazilian drought. *Time Magazine* disturbed Congressman Cooley of the House Agriculture Committee with a touching story of "two million people gnawing cactus plants" and "a boy working for forty cents

a day and arriving too late with his earnings to save a mother dying of starvation." A businessman came to the hearings to suggest that "it would have been a wonderful venture toward gaining goodwill for us if America were able to create an airlift to supply the stricken areas and thereby show the people of Brazil that the American people as well as its government are interested in their welfare."

Congressman Hagen insisted that "it is not an adequate answer to say that there is food in Brazil—the fact is that the Brazilian government might not be able to afford to undertake a give-away program of its own. In the light of what Congressman Cooley has presented here, the State Department, Mr. Dulles and the Secretary of Agriculture should show some initiative and get a conference with the President and then he might come up with something as dramatic as 'Atoms for Peace.' I believe the initiative rests more with the Executive Department than it does with the Congress."

"Since the *Time article* indicated that there were two million people desperately in need of food," said Congresman Cooley, "it occurred to me that since we have this food and it is available, we could do something to see if we could share the food with them and do it as expeditiously as possible."

It turned out that spokesmen for the Executive Branch of the government had not read the *Time* article. But the State Department testified: "We began to become aware of the seriousness of the situation in the latter part of March, although it was not at that time certain of course how long the drought was going to last or how severe it would be." (As has been noted in this article previously, the Embassy was later to report that assistance in March would have had real impact, which assistance six months later could not have).

> "On the 11th of April, our Ambassador and other Embassy officials spoke with the top authorities of the Brazilian Government about the drought. They expressed their own personal concern and asked if there was any way in which we could help. Part of the answer given was that the President of Brazil himself was not only aware of the condition but that he was going to visit the area personally to see for himself

what conditions were. I understand he did this just a few days after the April 11 conversation. It was left with our officials that when he had made his appraisal he and his government would be in a position to tell us what if anything we might do to help. When he returned we were informed that the greatest need we might supply would be under Title III for the time being. One thousand tons of powdered milk were involved which the National Catholic Welfare Council desired to distribute, and so the first request made of us and the only one so far was to expedite in every way possible this shipment. We promptly did that.

"The possibility of a Title II grant of emergency assistance was also discussed at various times during the month of April and May with the Brazilian authorities. I can assure you they are fully aware of the possibilities under Title II but so far they have not requested us to give Title II assistance. I am told there are ample supplies of all the basic goods in Brazil now. (This would seem to clash with a judgment by the Embassy. Author's note).

"The difficulties experienced by the government in remedying the severe conditions are in the realm of transportation and distribution facilities which are not easy to create in a hurry. *And of course the problem of internal financing.* (Italics by author).

"The government has taken definite steps financially and in terms of organizing distribution to relieve the distress. On May 26 the Embassy reported that the Brazilian Government's relief program to the area together with the aid being provided under Title III and the enlarged program of UNICEF appears sufficient for the present time. We have organized a committee in our embassy that has ben standing by for some six weeks ready for any further requests that the Brazilian government might care to make." [3]

The State Department quietly concluded: "We have been fully apprized of the situation. We have even taken the initia-

[3] This quotation and other material with respect to the Congressional hearing taken from *Hearings before the House Agriculture Committee,* "To Extend Public Law 480," May 5, 6, 7, 8, 9, 10, 22, 28, July 3, 1958, pp. 281-324.

tive in the beginning in bringing to the attention of the Brazilian authorities the aid which might be available to them. They have formed their own judgment as to what assistance they should ask for."

Still, this did not go down well with the congressional committee. After all, the United States has now assumed responsibility for the welfare of the people of the whole world. Was it to be left to other people, just because theirs was the authority, to determine when and how we exercised this responsibility, in the assumption of which so much brainwashing had had to be done within the United States?

"It is difficult for me to understand," said Congressman Cooley, "why starving people would not ask for food. You said we have had no official request for food. Have you any explanation for that? . . . Do you not think that if you were to communicate directly with the President of Brazil and tell him that we have by Congressional Act made foodstuffs available to hungry people in Brazil and are prepared to deliver vital foods to the suffering people in Brazil and could if necessary try to expedite shipment by plane, the response would be favorable and the food would go out and starvation be prevented?" (A previous witness had testified that the governor of a state had actually solicited aid directly, but the State Department pointed out that such requests have to go through channels (the national government) and that the Department could not enter into arrangements with state governors).

The Department's spokesman replied: "My own opinion is that the Brazilian government has made its own decision in the matter." And the Department of Agriculture supported this position: "Until the Brazilian government comes to a decision that they need our outside assistance, I think it is difficult for us to do much more than stand ready in a sincere way to meet their needs."

Yet, the incredulous Congressman Hagen, as well-meaning as any American could possibly be in a situation so appealing to our sense of moral responsibility, had still to ask: "You are saying in effect we cannot *force* the Brazilian government into a position where they *have to* accept a donation from this country?"

The State Department replied quietly: "I do not know of any way in which we can actually send this food on our own."

Congressman Simpson put it again: "You cannot *force* food on Brazil?"

The Department insisted: "No, sir."

Apparently still not satisfied, Congressman Hagen was reported by the United Press shortly thereafter to have made a proposal to the White House, based on the hearings before the House Agriculture Committee, that this country "ship some of its huge quantities of surplus food to Brazil through a cost-free airlift" as a "humane and dramatic act of implementation of our good-neighbor policy." And a few days later a national columnist, with a large circulation and a reputation for frequent inaccuracy, took up his fight, charging that while Vice-President Nixon was advocating sport and culture to win friends in Latin America, the State Department had dilly dallied about sending some of our huge reserves of food to the starving population of stricken Brazil and quoting Congressman Cooley as feeling that "protocol is not worth a tinker's dam to starving people."

It would seem that in the eyes of some congressmen, *the assumption of responsibility means an automatic assumption of authority within a foreign country to the degree necessary to carry out the responsibility.* Could anything be more dangerous in international relations?

The Issue Defined. If, on a life-and-death matter such as food for a starving 1.8 million persons, it is difficult to substitute the U. S. judgments for those of the foreign government and to impose American policy-decisions on the other government's judgment, it will not be difficult to understand the more common problem of making a decision on developmental priorities when the foreign government "dares" to insist that it, and not the U. S. Government, will make the decision, that the authority rests with it and not with the U. S. Government.

The recurrence of droughts in the northeast was not a surprise to Brazilian government officials. The northeast had been having more or less serious droughts on the average every five years for many many generations. It had been recognized that the area's problems might well be approached in integrated form

and that little serious progress could be made without broad basic studies of that kind. There had been suggestions that a more scientific use of weather data might permit perception of the coming drought at an earlier point, with ability thereafter to make plants to counteract the drought without the waste of crash programs. There had been suggestions of improvements that could be made in better pasture, efforts to produce hardier animals with greater capacity to resist droughts, and so on. The suggestion of diversification had attracted hopes and the usual Latin aspiration for a big steel mill or aluminum plant, even after French engineers suggested that the first thing to do was to conduct a geological survey to locate minerals, if any.

But developmental priorities, whether in Brazil or in the United States, are political. The Brazilian government had chosen not to give the area as high a priority as was attached to other projects and plans. And the Brazilian government had the authority to make that decision.

It is true that there had been many joint Brazilian-American examinations of developmental priorities, and that upwards of a billion dollars had gone into Brazil from Washington alone. But what is central and important is that invasion of a foreign government's privilege to make the final judgment on developmental priorities is a very delicate matter, calculated to be resented even when it comes at the hands of so well-meaning a friend as the United States. In the first place, the determination of developmental priorities is by no means a black and white affair (i.e., I am surely right and you are surely wrong), such as the U. S. too frequently assumes it to be. It is interesting in this instance to note that there had been no special preoccupation by the U. S. to give an integrated area approach for the northeast a high priority at the times when it was handing out funds for Brazil. Essentially, the U. S. has been concerned with only petroleum development and demanding a high receptivity to one priority — forbidding foreign governments to borrow for private capital for oil. Beyond that, the minutiæ of developmental tragedy which stripped the northeast in Brazil of adequate attention failed to disturb the planners of Washington seriously.

This does not alter the fundamental issue, however. If author-

ity to make decisions on developmental priorities is lodged with the foreign government, and *if* extremely unsound decisions are made, either the exercise of the responsibility assumed by the U. S. to promote welfare overseas follows the path set out by the foreign government and is so wasteful as to assure that the U. S. simply cannot afford a worldwide pattern of that kind, or the U. S. must be prepared to reconsider the whole thesis that the responsibility remains ours, regardless of our inability to control the implementation of the responsibility.

It is one thing for a free press to arouse the conscience of a country on a moral issue. For instance, after *Time* had brought out the sad tale of what was happening in the northeast, *Diario Carioca* in Rio was moved to explode: "How sad! How true! How bitter that our national disaster and disgrace, which we all knew about and tried to forget, should be reported to the whole world in Time!" But it is quite another thing for the U. S. Government to try to substitute its judgment on developmental priorities for the decisions politically dictated in free countries overseas.

The do-gooder will ask indignantly: "Then what do we do? Just sit back and allow the pace of development in Brazil or other countries to fail to reach its potential rate under sound policies?"

And the answer is quite probably a simple "Yes." For, if we have to destroy free government in Brazil in order to impose the U. S. concept of developmental priorities or the U. S. judgment of who needs food when in what amounts, we shall have done more damage with our self-assumed role of responsibility for well-being everywhere than can be justified under any conception of international relations. The United States has a right to say: "I am going to help more and more even if it kills *me*." For that is a domestic decision. It has no right to say: "I am going to help more and more even if it kills *them*." For that is an invasion of the sovereignty of the foreign country.

This does not imply a return to "isolation." It does not mean disemployment of the thousands who have made a business for themselves out of advocating the assumption of greater and greater responsibility overseas. But it may mean a re-direction

of their efforts. For instance, some months after the Brazilian drought, the New York newspapers, revealing the death of a three-months old baby from rat bites, protested that millions of rats infested the New York slums and jeopardized the health of the unfortunate people packed like animals in the area. Perhaps it may be necessary to divert this growing corps of bureaucrats and privately financed propagandists from overseas activity to our domestic problems, where Americans have a privilege to make the decisions, where we have both the responsibility and the authority to act. Or, it may even be necessary to re-train some of these people for useful work. It is now customary, when imported merchandise makes it impossible to keep Americans working at American wage rates, to say that the Congress should re-train these employees for other jobs rather than stop the inflow of foreign merchandise. There is no reason to believe that the great ever-growing group of foreign-aid expanders cannot be re-trained for useful employment in this country.

Departing from sarcasm, however, it is clear that the re-direction of effort involves largely a quest for more operational competence. For instance, not long after the rains came in northeast Brazil, the newspapers began to report the dismal disaster which Haiti was undergoing—also a drought. It was variously reported that "twenty children per day are dying of starvation," "two hundred have already died," "some 45,000 are badly in need of help." Here the situation was complicated by the fact that the very people who usually cry out most noisily for extension of government assistance were caught by an emotional political commitment—the fear that prompt aid might actually contribute to political stability in a country where the regime was alleged to be dictatorial. With our moral responsibility clear, and with our warehouses packed with food, and *with the Haitian Government eagerly and desperately seeking assistance,* it speaks badly for our operational competence that the government of Haiti should have had to wire a privately organized assistance group in New York that "food is needed on an emergency basis" in order to speed up contributions to provide bundles for Haiti, if we may be pardoned for the use of that term. Here the foreign government was fully in accord with the respon-

sibility which the U. S. has willingly assumed worldwide. Yet, the U. S. Government was willing to let its welfare hang on a newly organized charity drive to bring in the supplies needed. This suggests, then, that even in the exercise of more limited responsibilities, the area for improvement in operational competence is great.

The problem that is discussed here has extremely wide ramifications. The effort in the Congress to expand the foreign distribution of surplus foods to cover virtually the whole of the mounting surpluses is essentially based on a deliberate disregard of the scope of the authority which the United States can wield over the institutional structure of foreign countries. Why is it so difficult to understand that the problem is not simply one of joining two factors: (1) the under-consumption of certain foods in a needy country and (2) the over-production of food in the United States. If there were no institutional factors entering into the situation, the U. S. would not have to go abroad to dispose of these surpluses. We all recognize that there are people within the United States who are eating less butter, less eggs, less bread than they would if the surpluses could be distributed without charge without disrupting the whole marketing and production structure of the United States. And these are persons who are citizens of the United States, where the U. S. Congress has authority to legislate and make policy. Recently, for instance, the surplus of eggs created an immense furore in the Congress. Surely there are persons within continental U. S. who are eating less eggs than they might be willing to eat. But obviously the fact is that the simple under-consumption on their part and the over-production on the part of the farmers provide less than a key to the problem.

Yet, the same legislators who are unable to solve the problem within the U. S. presume to brainwash the domestic pressure groups into believing that we can dump the surpluses overseas, with total disregard for institutional factors and market structure overseas, despite the fact that the pious self-assumed responsibility for the welfare of those peoples never carried with it authority to make policy for the foreign country.

Conclusions. During the Brazilian drought of 1958, the

United States Congress learned that you cannot *force* a foreign government to accept donations, however grave you may read the situation as to need on the part of the people in the foreign country. The situation illustrated the principle that in the distribution of foreign aid, in the assumption of responsibility for the well-being of the people of all foreign countries, the United States has acted without understanding of the limits of authority to perform that task. A persistence of the belief that we must implement such a responsibility regardless of the reaction of the foreign country must carry with it ultimately an effort to gain authority which can only result in a breakdown of international relations. To attempt to execute responsibility without the authority to assure minimum soundness in policy can in the field of development involve a drain on the resources of the United States far exceeding its capacity. There is needed a redefinition of the responsibility of the United States consistent with the authority which it may properly exercise in relations with free peoples everywhere.

Inter-American Development Bank—II

*By Virgil Salera**

Institutional innovations of an economic kind which economists formally attempt to justify on economic and statistical grounds may be worth trying for non-economic reasons. This, I submit is the case with the new Inter-American Development Bank, which now awaits only formal ratification by the Hemisphere's legislatures before it takes its place as another unit—the only financial institution—in the inter-American system.

Readers of *Inter-American Economic Affairs* who perused the first half of this two-part paper in the Winter 1958 issue will recall that the Pan American Union's official plea for the new Bank was grounded in economic arguments. My evaluation of the PAU's lengthy—and labored—brief attempted to demonstrate that hardly any of the many arguments set forth in the document (all of which were technical or semi-technical economic arguments with more or less related statistics attached) could withstand close and critical scrutiny. I therefore concluded that the new institution, judged by the official plea from the Pan American Union, could be regarded as little other than the latest episode in the costly and not very effective process of agency proliferation for which Washington, under Republicans or Democrats,[1] is noted—of course, to the disgust of most taxpayers.

However, it is possible to take a favorable view of the new regional Bank if the blueprint of the agency—which was not available when the first part of this paper appeared—is examined with political, rather than economic, spectacles.

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[1] I speak from experience in five government agencies and one international institution over a period of nearly 20 years.

A Dual Department Bank

The new institution consists of two departments or units. One is the Inter-American Development Bank proper, which will lend on the *usual* repayable loan basis, and the other is a true innovation within the framework of a regional financial institution which has come into being with United States support and resources. Specifically, the innovation is the "Fund for Special Operations," which will also be a "lending" institution providing dollars and Latin American currencies against debt service in the currency of the borrowing nation. In other words, the Fund at least nominally will make loans as far as dollars are concerned. But of this, more later.

The Bank. The Bank proper, which is to be a World Bank-type institution, will have a capital of $850 million, of which Latin America's subscription—at least nominally—will be larger than that of the United States. The capital will consist of a paid-in portion (to be covered in three instalments of 20%, 40% and 40% in as many years) and a callable portion. Paid-in capital will be divided $150 million for the U. S. and $250 million for Latin America, while the callable shares will be $200 million and $250 million, respectively. Hence, the total capital to be contributed by the U. S. will be $350 million, and that by Latin America $500 million. Maintenance-of-value clauses apply to the capital provided by members.

As I have indicated, however, Latin America's capital contribution will be larger only in nominal terms. There are two reasons for this. First, half of Latin America's paid-in capital may (will) be in local currency; second, it is most unlikely—given the basic nature of inter-American economic affairs[2] as revealed especially by the many, varied and unpredictable ad hoc arrangements to which the U. S. accedes or by which the United States otherwise and however reluctantly accommodates Latin America—that *all* of Latin America's callable capital will

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[2] See, for example, the present writer's "Latin American-United States Economic Relations," *Yearbook of World Affairs,* London Institute of World Affairs, to appear in 1960. A forthcoming study for the Morse Subcommittee of the Senate will also deal with this subject, but I suspect not with the emphases to be found in my *Yearbook* paper.

(perhaps ever?) actually be subject to call in compliance with a literal interpretation of the Bank's provisions relating to the discharge of its *dollar* obligations.

At the end of the three-year period during which the paid-in capital must be supplied, the Bank is to increase its callable capital by $500 million provided that there is approval by a three-fourths majority of the total voting power. Since the United States will have 41.2% of the paid-in and callable capital, an effective veto will lodge in U. S. hands. (The Latin American nationalists and leftists, if I may be permitted to say so, can be counted on to stir the mobs by waving the Wall Street flag under this heading.)

Callability is to be limited, as already indicated, to situations in which losses have been sustained and Bank obligations have to be discharged. More specifically, calls on unpaid subscriptions "shall be uniform in percentage on all shares." Thus, if $50 million of obligations have to be met, or one-ninth of the total capital subject to call, each government will be required to provide the Bank with one-ninth of its callable capital in the currency in which the obligation is denominated.

The new Bank is expected to obtain most of its lendable resources in the same manner as the World Bank, i.e., by way of its own borrowings in the long-term capital market. It will be restricted as to the total which may be lent in any currency to the total of its own borrowings of such currency.

Loans are to be made on a project basis, or, more accurately, to "meet the foreign exchange costs of the project" being financed. But this does not necessarily mean what it appears to say. Thus, the charter states that funds to meet local expenses shall not be provided, other than in the currency of the borrowing member, except "only in special cases." However, such cases are immediately "defined" very elastically to cover those situations in which "the project indirectly gives rise to an increase in the demand for foreign exchange." Professor Cairncross should be happy with what will probably be a substantial departure from World Bank practice.[3] Given especially the all-too-common slovenly domestic economic and financial practices in the Latin American governmental area, it remains to be seen, however,

whether loans to cover local expenditures in the typical case will give the results that would meet with Cairncross' approval.

Bank loans to a nongovernmental entity need not require the guarantee of the government in which the entity is located. Clearly, this provision is also more elastic than the comparable one in the World Bank charter.

Loans generally are not to be tied loans. However, a member government may ask the Bank to limit the borrower's uses of its own currency only to those which make "payments for goods produced in the territory of such member." (V, 1, (c) .)

A final word about management and decision-making. The Bank will have a seven-man Board of Executive Directors, of which one shall represent the United States. All decisions save a few relating particularly to capital subscriptions and the like will be by majority vote. Most operations, therefore, will be conducted in terms of Latin American decisions.

The Fund for Special Operations. Ample leeway has been provided for the Fund's operations. In the language of the charter, the Fund is to make "loans on terms and conditions appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects." Characteristically, the "special circumstances" are left undefined, though the loans in question are very elastically "restricted" to those which meet the general purposes (development, growth, provision of technical assistance, etc.) of the new institution.

The Fund's resources will total $150 million over a three-year period, of which $100 million will be provided by the United States and $50 million (half in local currency) by Latin America. These resources, it is important to note, will not revolve through effective repayment (at least to any significant extent) [4] as they should in a true bank. Hence, relatively severe voting restrictions characterize the Fund. For instance, all decisions will require a two-thirds vote, with the result that U. S. concurrence will be

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[3] Alec Cairncross, "The International Bank for Reconstruction and Development," *Essays in International Finance,* Princeton, March 1959, pp. 20 ff.

[4] Moreover, Fund obligations may not be discharged by calls on the Bank's callable capital.

needed in the case of each of the Fund's actions. Moreover, the three-fourths vote provision also applies to attempts to increase the Fund's resources.

As previously indicated, debts owed the Fund may be and almost inevitably will be serviced in the borrower's own currency. Such currency may easily be created by the debtor government, maintenance of value clause or no. The new Latin American Fund for Special Operations therefore will be a small-scale Development Loan Fund. As has been experienced—and easily foreseen—in the case of the DLF, we can be sure that borrowing governments will first exhaust every opportunity—and device—to get their "due" at the Fund's borrowing window before they try the Bank proper.

A Tabular Summary. A rough and ready financial summary of the new institution is provided by the figures below:

INTER-AMERICAN DEVELOPMENT BANK
(Millions of Dollars)

	U.S.	*Lat. Am.*	*Totals*
A. Bank Capital Paid-in (in three instalments			
Gold or dollars	75	125	200
Local currency	75	125	200
	150	250	200
Callable capital	200	250	450
	350	500	850
	(41.2%)	(58.8%)	(100%)
B. Fund for Special Operations			
Gold or dollars	50	25	75
Local currency	50	25	75
	100	50	150
Grand Totals	450	550	1,000

The Bank's management and personnel will also run the Fund. In the senior post will be a vice president of the Bank in charge of the Fund. He will participate without vote in meetings of the Bank's Board of Directors whenever Fund matters are under discussion.

Technical Assistance. The new institution is expected to play a moderately important role in the field of technical assistance, especially in connection with the preparation of development plans and projects. It will also help with respect to training programs, conduct seminars ,and offer governments the services of its own specialists. As will be discussed below, activities under the general heading of technical assistance could be of some importance in terms of the political aspects of the new institution's work.[5]

On Technicalities

The U. S. Export Position. A take-off on commentary might reasonably run in terms of the changing export position of the United States. As one who never [6] succumbed to the lure of the thesis of "chronic dollar shortage," characteristically grounded in suspicion-creating long chains of reasoning and the employment of all manner of "facts" interpreted largely in terms of the indicated chains of reasoning, I believe that Americans should be concerned about the growing evidence of our deteriorating export position and what I feel to be its main bases in wage inflation and excessive welfare-statism (domestic and foreign). Our edge in the new product field and in management generally, though it should tilt the scales favorably over the longer pull (when we should have time to correct defective man-made policies), is not likely in the short run to offset the marked deterioration which has occurred in our relative cost position with respect to thousands of the more conventional industrial and farm prod-

[5] On this point and a few others, my present emphasis differs somewhat from that which appeared in the Winter 1958 *IAEA* paper, where—as previously indicated—I confined my analysis to economic and technical, as opposed to political, factors.

[6] See the successive editions of *International Economics* by Professor Enke and the present writer.

ucts—items, interestingly enough, which were shipped abroad in substantial volume when it was fashionable [7] for many international economists to talk and write about "chronic dollar shortage.."

It is the basic export position, rather than assessments based on the taxonomic technicalities of balances of payments, which will do much to shape our foreign economic policy, including financial assistance for economic development and especially the geographic distribution of such assistance. In taking this view, I am not unmindful of the exigencies of the cold war.

More specifically, the basic U. S. export position is likely to be a powerful factor influencing the terms on which the new Bank will be able to effect its own borrowings in the United States at least, given certain considerations chief of which will be the managerial record which the institution establishes.

What Kind of Management? If the Bank is lucky enough to attract a really rare Latin American to its presidency, namely, a tested and outstanding person, the institution should have a good chance to develop a fine management. The technical characteristics of the Bank proper and the environment in which it will operate, however, are also likely to work powerfully to produce a fairly solid—if not outstanding—management.

There are several reasons for this. First, the Bank will be headquartered in Washington, in the vicinity of the well-tested and internationally distinguished World Bank. The policy-strengthening influence of this juxtaposition, despite the high probability that some of the new Bank's staff will seek to play up ECLA-type and perhaps even Marxist criticisms of the World Bank's operations in Latin America, should offset the net deleterious effect of being located in the midst of special pleading, self-seeking and necessarily politically-oriented Latin embassies.

I would like to amplify the statement concerning the tactics which we can expect some of the staff to employ—and occassionally to exhibit in published form. The extraordinary Bra-

[7] The "line" even permeated the international section of the last Economic Report of President Truman. See *Economic Report of the President,* Washington, January 1953.

zilian Embassy press release of late 1958, issued during the Washington meetings of the American governments in the name of the poet who headed the Brazilian delegation, is a revealing illustrative case. This release, in line with what is now fashionable, emphasized without documentation that extrapolated Soviet per capita real income would greatly exceed that of the U. S. No doubt relying heavily upon CIA pronouncements which were uttered mainly to impress Congress, Soviet income was extrapolated (as I learned upon investigation) in terms of no less than a 9 per cent growth rate to yield $5600 per capita in 1980 (in 1958 dollars). The U. S. figure was put at a mere $3811, on the basis of a mechanical extrapolation of post-war data. (Item 34 in the release, undated, but mentioned by the press on November 25, 1958.)

This numbers game is great stuff, of course. Even the economically illiterate will see how it points up the "wave of the future," shows by the "test" of results where the real development model is to be found, etc., etc.

The great pity, of course, is that we probably are being fooled by the numbers, to the delight of Moscow! Consider, for example, the work of some distinguished non-government specialists such as Professor Warren Nutter's for the National Bureau of Economic Research. Soviet data on *industrial* output, he shows, are extremely tricky. There is a wide dispersion of rates of growth in different Russian industries, important gaps, base-period problems, comparability difficulties when only Soviet industrial output is considered, etc. Nutter, very properly, is wary of any single Soviet index. As Professor Fabricant states in his comments on Nutter's still-to-be-published study: ". . . . even the highest index calculated by Nutter shows a rise in Soviet industrial output that is far short of the rise indicated by the official Soviet index. . . . Nutter's own choice of a single index . . . shows a rate of growth since 1928 that is not much more than a fourth of that shown by the official Soviet index." [7a]

[7a] Solomon Fabricant, *The Study of Economic Growth*, National Bureau of Economic Research, Thirty-Ninth Annual Report, New York, 1959, p. 3.

Nutter's study cannot appear too early to begin to operate as an antedote to what I believe history will record as half-baked, and frightfully expensive official U. S. statistics on Soviet performance. (How much other bungling is covered up by the security system in Washington?)

Second, the Bank's own borrowing rate probably will have the effect of producing fairly good management. It is highly probable that the Bank's securities will carry a somewhat higher coupon—perhaps as much as one-quarter of one percent more—than will be the case on the average with World Bank securities. This, I believe, will result, at least in the early years, from the following factors among others: (1) Latin American management per se, (2) a proportionately smaller creditor-country callable capital as compared with the World Bank case, (3) the virtual certainty of wide publicity attending periodic lapses from widely acceptable governmental practices in Latin America, and (4) the probability that Bank spokesmen or staff and other personnel who are believed to be close to management will give vent to statements, of the general sort found in the PAU document [8] which was the subject of the first instalment of this paper, which indicate or imply that the Bank follows or may adopt more liberal standards of capacity to repay than is the case with "competing" international lending institutions.

A higher coupon on Bank securities will, I believe, work to narrow somewhat the gap between the usual levels of interest rate which are employed in project calculations and, say, the "Tinbergen 10% standard." [9] In taking this position, let me hasten to add, I am not necessarily advocating early, let alone universal, application of the Tinbergen standard.

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[8] See *IAEA,* Winter 1958, p. 86. Moreover, the indicated spokesmen might muddy the policy waters with "scientific" analytic-statistical exercises which purport to show, for example following Alter (cited by H. S. Ellis, "Accelerated Investment as a Force in Economic Development," *Quarterly Journal of Economics,,* Nov. 1958, p. 490), that Latin America should be able to service a larger volume of foreign capital more easily ("with greater likelihood") than a smaller volume.

[9] Jan Tinbergen, *The Design of Development,* Johns Hopkins Press, 1958, p. 86.

Third, there will probably be a tendency toward good management of the Bank proper owing to the "soft" loan operations of the institution's own special Fund. That is to say, the Fund can and very probably will be used at least partly as a vehicle for throwing sops to some of the more clamorous Latin American politicians who might otherwise use a good part of their energies in the negative business of attacking the Bank.

Implications of the Bank-Fund Pattern. The pattern reveals some interesting possibilities. To illustrate, assume the following not unrealistic conditions:

1—that Latin America views its paid-in dollar capital to both institutions as but a temporary change in the form in which its "exchange reserves" are held;

2—that the U. S. (a) paid-in Bank capital of $150 million and (b) contribution to the Fund of $100 million are disbursed at a steady rate through the end of the fourth year, and that the U. S. contribution to the Fund is restored anew by Congress;

3—that inteerst on Bank loans is 6%, and thatt amortization is over a period of 20 years.

On these assumptions, and treating transfers of dollars by the Fund in the first three years as a means of restoring exchange reserves to their usual form, the Latin American situation in the fifth year will be as follows:

1—receipts of dollars from the Fund during the fourth year and available in the fifth will be $25 million;

2—payments to the Bank (a) for interest payable on account of the fourth year will be $9 million and (b) for amortization $7.5 million, or a total of $16.5 million;

3—a "surplus" of $8.5 million will exist, which will be available for other uses including the servicing of Bank loans made from the proceeds of the Bank's own borrowings in the securities markets.

In short, the Bank-Fund pattern of operation, and specifically the contribution of dollar "gifts" via the Fund, could give Latin America the equivalent of interest-free borrowings from the Bank proper, or at least interest-free terms with respect to a sizable part of such borrowings. How much will other regions emulate the Latin Americans in this respect? One could enlarge with ease upon the implications of such effects, but this is not the place to do it.[10]

Local Currency Potentialities. A subject of some interest—and interest should trend upward in view of what is almost certainly in prospect—centers on the potentialities of the Fund's local currency holdings.

On paper, the Fund is to have unrestricted use of such currencies. Thus, V, 1, (a) freely permits the Fund to make purchases of goods and services produced in the territory of the member whose currency is held. In addition, international transfer should represent no problem—partly for reasons of small volume, of course—with respect to currencies which are convertible, such as those of Mexico and Venezuela.

For most countries, and it would appear for the great bulk (valuewise) of the Fund's holdings, however, local currencies are likely to revolve *only locally.* I would insist that, largely for policy reasons, including policy drift, the foreign economic position of most of Latin America is such that the typical country is likely to insist upon relief by invoking V, 1, (c), under which the country indicates its desire to have the Fund restrict the use of its currency holdings to purchases of indigenous goods and services *for* local disposal. (The emphasis is not in V, 1 (c), I may add.) A mere revolving of the holdings in this

[10] The implications with respect to Senator Monroney's IDA (International Development Association), first guardedly opposed by Secretary of the Treasury Anderson (in 1958) and then almost enthusiastically supported by the same Anderson in 1959, are especially interesting. Perhaps the Europeans that we would like to have share the burdens of IDA with us, such as the Germans, have reacted in a lukewarm way because they are painfully aware of the implications—let alone unconvinced about America's basic aid policy as a sound long-run approach to development financing.

special sense, I submit in the light of a voluminous record, is most likely under V, 1, (c) for the reason that the typical country very probably will insist that the export of goods purchased with Fund holdings either will threaten or force it to sacrifice earnings of convertible currencies which it needs for financing its own economic development.

It follows that, given the play of compound interest, Fund claims on local wealth are likely to increase fairly continuously. The Fund therefore will have to attach great importance to the development of policies and machinery for the continuous supervision of its growing local economic activities. The potentialities for improved long-term capital formation, including some helpful "demonstration effects," could be considerable. But Fund management would have to be above average, and in particular the Fund's educational role would have to be effective in combatting activities such as those which are almost sure to originate with local leftists who probably will take delight in tarring the Fund with a Wall Street brush.

While on the subject of education, it is important to underscore the need for alertness to the common tendency for special pleaders to play on numbers. There will be pressure to grind out crude quantitative comparisons with the U. S., or sophisticated but largely irrelevant ones. A good illustration, from another region, which parallels effort of a kindred kind in Latin America is a recent exercise by an Indian writer who purports to show that India's "public sector" is small because crude and unadjusted data indicate about a 10% ratio versus about an 18-20% share for the U. S. public or governmental sector. But these data show nothing of the kind, because they are unadjusted. As a minimum, the scientifically-minded economist would deflate the reported U. S. public sector for most of the enormous defense portion and he would relate the Indian public sector, and especially the relatively sizable "enterprise" division thereof, not to national product but to the comparatively small non-agricultural portion of such total product.[10a]

[10a] For the work to which reference is made, see A. G. Chandavarker, "The Public and Private Sectors," *Economic Development and Cultural*

Political Gain at the Cost of Proliferation?

Viewed in terms of the economics of the issue, a new regional development bank—given mainly the existence of numerous international lending agencies and particularly the World Bank, the Export-Import Bank and the Development Loan Fund—would represent little more than agency proliferation. This, per se, would not only be undesirable; a good case could be made, under the indicated circumstances, for censuring those in the United States government who were responsible for announcing the policy reversal regarding a regional bank.

But, as I stated at the outset, the matter shows up in an entirely different light when considered in terms of relevant political factors. It is to the principal of these that I now wish to address myself.

The OAS. A point of some importance, though not overridingly so, involves what might be called the political value of the economic activities of the Organization of American States. As one who has witnessed developments from the inside, I must say in all candor that this value is low, and is so regarded by most informed observers both north and south of the Rio Grande. In fact, the record speaks for itself. If one searches for the reasons, he will find many. The main drawback doubtless is organizational. Specifically, the operation could hardly have been designed to be less effective. Chiefly responsible for this condition, of course, is the string of 21 bosses (one in each delegation)—so many cooks that the analyst wonders why the people involved didn't give up the broth business long ago. And meddling by the bosses in the technical work of the secretariat—though not a matter which public relations boasts about—is so extensive, and carried on with such impunity, that it is almost a

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Change, April 1959, pp. 250-251. (The issue of this periodical is devoted to India.)

I might add that it is also necessary to be alert to other comparisons, such as the fairly common one which purports to show that Norway's "planned" growth has been as impressive as Erhard Germany's free growth. Actually, little if any allowance (excluding passing references) is made for the special—non-policy-determined—contribution of shipping to Norway's recorded growth, which has no parallel in the German economy.

miracle anything of technical economic merit ever gets done. All this is well known among Washington specialists, though not outside the capital (and I dare say not in the Congress—though the studies now being prepared at a cost of $150,000 for the Morse committee of the Senate may shed a little light).[11]

The new Bank, given fairly good management, could do much to create at least a moderately effective financial-technical operation at the inter-American level, where it is needed. This is likly to be particularly true of its activities in connection with technical assistance in development programming and allied matters and policies. (The technical assistance work will have $1.5 million a year at the outset. See VI, 3, (b). Given especially the tie-up with a financial institution, this effort could be the best of its kind in Latin America—and could displace far less defensible efforts.)

ECLA's Role. For the main political argument in behalf of the new institution, however, I would contend that it must be sought in the work and, unfortunately, the influence to date of the regional United Nations organization. I appreciate that this is a matter of some delicacy. But intimations of what is involved have already been reported in the press,[12] and government technicians who know the thousand and one details have devoted much time to various facets of the problem.[13] The essentials should no more be suppressed than, say, the "non-Keynesian" things which Keynes stated in his famous posthumous article in the 1946 number of the *Economic Journal.*[14] It is about time,

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[11] A few hours in executive session would provide the Senators with far better information, at no extra cost to the taxpayers, than they are likely to get from writers with only limited access to the truly relevant facts. After all, government files are replete with telling information. Material so provided in executive session, of course, would have no direct partisan political value!

[12] See, for example, the *New York Times,* May 22, 1959.

[13] The present writer claims something more than a nodding acquaintance with the subject inasmuch as he participated in 1955, while a member of the Senior Staff of the President's Council of Economic Advisers, in some of the work of the interdepartmental committees which developed conference position papers.

[14] I hope that Professor Viner, when he comes to write his History of Economic Doctrines, will indicate the details and refer to some of the internationally known men who were involved in the episode.

in my judgment that a wider audience should begin to know what is going on.

Briefly and baldly, the Economic Commission for Latin America, though it continues to do some constructive work in a variety of study areas, has become a focal point for strong economic anti-Americanism at policy and operating levels in most Latin American governments and particularly in the case of the work and voting of such governments at economic conferences. What is even worse, the secretariat now actually dominates the Latin delegations with respect to resolution-writing at such conferences, as the recent Panama City meetings revealed (my sources are completely reliable and multinational). This, I submit, is an intolerable perversion of the secretariat function. The reasons for all this are many and varied, as is to be expected. They include personalities, the political beliefs of many on the sizable ECLA staff (the largest part of whose salary is paid by U. S. taxpayers, of course), the comparative economic vacuum at the OAS, incorrect forecasts by people in the top echelons of the U. S. government, and the not unimportant standard human attractions of David-Goliath tussles.

The ECLA operation, if I may elaborate for the benefit of teachers of Latin American economics and institutions—and even perhaps for members of the Morse committee of the Senate?—, is fundamentally a victim of the cold war. This, I submit, does not begin to be appreciated on the scale that is required if the American taxpaying public is to be kept well informed.

One could proceed with an extended analysis of the several other political factors which are more or less relevant to a judgment on the Bank. Since the above should suffice, I shall limit myself to one or two more comments. One has to do with another international agency which, though it concerns itself with no region in particular, nonetheless could vote for a largely U. S.-financed institution of very questionable value from the American viewpoint. It may suffice, for present purposes, to leave the matter in this vague form, since elaboration would depend in good measure on material which is of a classified nature.

My final comment on the political side relates to an old bugaboo: vocal Latins in some important countries have long hoped to find the oil-industry crock at the end of the U. S.-government-financed rainbow. It would be naive not to expect this issue to stir up a lot of dust—unless the management's record is of sterling quality so that the officers can effectively rebut charges confined to an industry which tested American private capital, other than taxpayer funds, can and should develop if foreign capital is to be involved.[15] On this question, it is interesting to note that the official U. S. position was set forth on June 23, 1959 by Assistant Secretary of the Treasury Upton in response to a query from Senator Morse: none of the new institution's resources, Secretary Upton emphasized, will be used to finance government ventures in oil.

To sum up: The new institution, I believe, illustrates the case of learning how to bounce with the political ball. But "bouncing" of another sort is also in order. Specifically, even without the new Bank, we would be faced with an enormous problem of rationalizing the topsy-like structure of development lending agencies, if only for efficiency's sake (which is quite important in itself, to be sure). Subject to such a caveat, I have this judgment to make: Though it will be yet another agency, with a "soft" loan operation which could mushroom to excessive proportions under Latin American pressure on the State Department, the new Bank represents a reasonable calculated risk at the present stage in the evolution of American foreign economic policy. Inter-Americanists wish it every success.

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[15] Interestingly, the Venezuelan operation of its petrochemical plant at Puerto Cabello has been so mediocre that I am informed there is serious study within the government of the the desirability of inviting foreigners to manage the operation. This activity, I may add, is little more than a fertilizer operation. The implications for broader issues, including oil, I leave to the reader.

Commercial Agriculture and Land Reform in the Bolivian Oriente

*By Dwight B. Heath**

Farming can be done on a commercial basis among the Camba only by finqueros who have large tracts of land and keep tenants as resident employees. Even they do not think of agriculture as a large-scale commercial enterprise in which the goal is progressive increase of efficiency and/or production in order to maximize profits. Virtually every rural *campesino* farms to get food for his family. Finqueros, too, usually farm only enough to feed themselves and their workers and to have a tiny surplus for sale or exchange in small local markets. The wealth of the finqueros is that of leisure, with little liquid capital involved. The ease and few comforts they enjoy are those of the semi-feudal landlord whose riches consist not in a large income but in an abundance of labor combined with the feeling of security in land which fosters full consumption of a moderate current income.

Extensive landholdings, therefore, have long had value in terms of prestige which far outweighed their negotiable economic value. Even in the largest fincas in the Camba region, agricul-

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* This paper is taken from a doctoral dissertation (Yale University) titled "Camba: A Study of Land and Society in Eastern Bolivia."

The dissertation was based primarily on research done among the Camba in the Department of Santa Cruz from June 1956 through June 1957. Dr. Heath lived for 12 months in a rented one-room adobe hut near the village of Montero, almost at the geographical center of the Camba region.

("The Camba may be called an emergent society: they are predominantly mestizo agriculturists who occupy a small region in the sparsely populated tropical lowlands of eastern Bolivia.")

tural techniques were traditionally primitive and inversion of capital minimal. Vast expanses of land were left uncultivated, and tenant farmers did virtually all work by hand, without the aid of machines. By and large, the techniques of commercial farming were the same as those of subsistence farming, and it was the abundance of land, together with the concentration of manpower on a finca which allowed production of sugar cane and coffee, the principal cash crops.

Landclearing by the slash-and-burn method was employed by the finqueros as well as by *campesinos*. Crop rotation was equally haphazard, and betterment of the soil equally neglected. Planting and harvesting were likewise similar in both subsistence and commercial farming.

It was the enactment of a federal agrarian reform law in 1953 which precipitated temporary changes in this pattern. The threat of expropriation of "surplus" holdings shattered for many finqueros the feeling of security in land which they had enjoyed. The law provided for immediate total expropriation of all "latifundia," which were defined as ". . . extensive rural properties which remain unexploited or deficiently exploited by the extensive system, with antiquated instruments and methods which allow waste of human effort . . ." (Bolivia, 1953a: Article 12). With the explicit aim of increasing agricultural production, however, allowance was made for the retention of a large area (up to 2,000 hectares in the Camba region), by an "agricultural enterprise," a farm characterized by ". . . large-scale inversion of supplementary capital, the regimen of salaried labor, and the use of modern technical means" (Article 11).

In reaction to this threat many finqueros endeavored suddenly to make their latifundia eligible for the advantageous classification as "agricultural enterprises," and so defend their claim to large areas of land. At about the same time, Point Four's program of agricultural credit was started and finqueros were the only ones who could post land and future crops as collateral sufficient to get large loans. Many of them were glad to have funds for inversion into the fincas, in order to retain the land on which their status as finqueros was based.

In 1954, an agricultural machinery pool was established at

Santa Cruz, and finqueros with loans were able to rent a wide variety of mechanical aids at rates lower than actual operating costs. There was no landclearing equipment in the pool, but large bulldozers were pressed into service in that capacity around Montero, Warnes, and Portachuelo. A bulldozer and operator, rented at 20,000 *Bs.* per hour, could clear a hectare of high jungle in eight or nine hours, not only uprooting trees but pushing them aside to form long mounds on either side of a bare field. Clearly a finca where so much capital was invested and such large machines used should not be expropriated as a latifundium under the agrarian reform law. Furthermore, this major change in landclearing techniques meant not only a small saving on the initial costs of having land cleared, but the consequent huge saving in time allowed earlier planting and harvesting. Other savings were possible in that mechanized plows and seeders could be used in the uncluttered fields. Rental rates were so low that commercial farmers invariably realized profits from newly cleared land during the first year of use.

The market for agricultural produce in the Camba region had traditionally been distinctly limited. The population was sparse, and virtually everyone raised crops which met a large portion of his own needs. Transportation to other outlets was too slow and costly to be feasible for foodstuffs. Large-scale commercial agriculture, in brief, required a change in facilities for distribution and consumption.

A huge modern sugar mill and alcohol distillery built near Montero by *CBF* has stimulated some finqueros to grow more cane, especially since a network of graded "feeder roads" from some of the larger fincas to the mill was made by Point Four. The railway to Brazil and the highway to Cochabamba promised to serve as channels for the ready distribution of any surplus agricultural production. Thus, several finqueros who started commercial farming only on a small scale in order to protect their land happened, by a peculiar accident of history, to be put in a position where they became wealthy in a single year, with a minimal investment both in capital and labor and with virtually no economic risk. Monetary inflation was such that invariably they were not only able to amortize the loan during

the first year but also had a cash balance which far exceeded their usual income. Accustomed to spending rather than saving or inverting their money, they bought electric generators, tractors, and other "luxury goods" and were eager to borrow again for the next year's planting. Nevertheless, these men have not attempted to increase production or to look to an expanded market for greater profits. The reasons for this are complex and merit extended discussion.

One relevant factor is that the land reform law is locally administered and its provisions have not always been adhered to in a universalistic manner. In many instances, *MNR* sympathizers have received preferential treatment, while opponents of the party have suffered losses in violation of the law. For the present discussion it should suffice to say that the threats implied in the agrarian reform law have proven to be of no importance to many finqueros, while others run the risk of losing their properties even if they comply with the specifications of the decree. One major effect of this kind of discrimination has been an abrupt interruption of expansion-trend of commercial farming. Those partisan finqueros who are assured of being able to keep their land no longer feel pressed to expand or intensify work on their latifundia, and the other finqueros are reluctant to invest in the development of properties which they might lose at any time. The attitude of this former group was well summarized by one man who proudly welcomed me to his 1,200 hectare finca with this telling speech. "Here you see a really primitive finca. The tenants here work just as they did in colonial times. Nothing has changed; there's no progress; everything is as it always has been. Does that seem strange? I'm going to explain something to you. I'm a finquero—do you know what that means? It means that the land is my life, as it was my father's, and his father's, etc. It's not that we are so rich—look—there are no luxury items, not even electricity. But we have our land and our servants, and enough to live on." He went on to explain, "Sure, I took credit from Point Four. I even had a few hectares cleared by bulldozer. They even fixed the road out here—it used to be just mud. But that was some three or four years ago. No more! I know that the *sindicatos*

won't touch my land, so why cultivate it? We have enough this way. To expand the plantings would need more tenants. That means more work for me, too. No, thank you. I have security; I have enough food and enough servants. What more does a man need? My finca remains backward—almost primitive—and why? Because I prefer it, my friend. It's that simple." His views are typical of the vast majority of Camba finqueros; this quotation was selected from among many similar ones because of its succinctness.

It was just such complacent conservatism, however, that another finquero decried as the greatest fault of the Camba. He himself had other reasons for not investing heavily in the development of his property, although he was enthusiastic about its commercial potential. His complaint was that, "The government opposes progress. Sure, they always say that they favor economic diversification, agricultural development, the progress of the country, etc. But, to the party, those are just highsounding words with no meaning. The *MNR* doesn't stimulate pr*ogress—it* crushes it. This is especially a problem around here. The Camba are lazy—backward. They seem still to live in the sixteenth century. With the *campesinos,* you can't expect any better. They are ignorant—not stupid, mind you—they just don't know anything more than their own primitive way of life, and that probably hasn't changed much since they were savages. But the finqueros are worse. I'm a Camba, you should know; it is because I am a Camba that I know well the fault of my kinsmen, my compadres, and friends. Finqueros don't know how to work—they have enormous landholdings and they do nothing but raise food for their families and those of their tenants. Rice, yuca, plaintain, maize, maybe a few fruit trees. Then there are a few hectares planted in cane, to sell for molasses, sugar, or alcohol—but not many. And a few coffee trees. Nobody earns much. They only cultivate a little, using archaic means. They don't know modern technology and, worse, have no interest. Now I'm sure you want to know how it is that I can say this when I myself have a finca very little developed. That is another story, very different, and a little sad. The sadness is not for me but for my country—she will suffer as well as I." He would not

continue until assured by my repeated confirmation that we were indeed very dear friends, and that I would tell no one in Santa Cruz what he was to tell me. Then he went on, "Do you know why I, too, have a backward finca? It is not that I know nothing else—I have read much, and I have seen progress in Argentina. It is not that I am too poor to develop the land. . . . I know how to farm; I have plenty of good rich land; there is no lack of money; I am not lazy like most of the other Camba. I cannot progress because I don't dare. That is difficult for you to understand, I'm sure. So I'll explain. It's the party—the *MNR*. Do you know that I'm called 'an enemy of the party'? And they say, 'An enemy of the party is an enemy of the people.' It doesn't matter why. What is important is that, as an enemy of the party, I have no rights whatsoever. Let's say I clear so many hectares; then I plant cane. Then—poof—all of a sudden a new *sindicato* is formed and they steal my land. They do it through the Agrarian Reform Judge, but I still call it stealing. According to the law, an 'agricultural enterprise' is exempt from expropriation up to 2,000 hectares. 'The land belongs to him who works it,' they say. They also say, 'We must stimulate agricultural development, and for this we will protect the landowner who augments production.' High-sounding words again, nothing more. Do you know what happens to the finquero who tries to develop his property, to augment production—in short, to make progress? He loses everything. There is such discrimination against those of us who are not of the party that it is not safe to show that you have anything. They are thieves, that's all, but the party is the government—law counts for nothing. We have only to work a little harder than they, and, immediately, they take what we have done. There is no recourse; they have complete power. It has happened too often—to me as well as to others. But no more. I can wait and hope that someday the *MNR* will fall and it will be safe for a man who wants to work for progress." In such a situation, commercial agriculture has been understandably slow to expand despite the official efforts of national and international organizations toward that end.

Differential application of the agrarian reform law is not the only factor which has retarded the rate of expansion of commercial farming among the Camba. The new technology of mechanized agriculture had the unfortunate effect of speeding up deterioration of the soil. After the loamy topsoil had been scraped off by bulldozers, the sandy substrata were subject to increased leaching by heavy seasonal rains, and erosion became worse as winds blew unhindered down the long narrow fields. One informant, a well-educated Camba finquero who had observed agricultural methods in neighboring countries, was well aware of these shortcomings. As he phrased it, "Hand-clearing is much better. But the problem is time. It takes so long with just machete, brush-hook, and axe. But when you're finished the land is still rich. Not like the bulldozers that scrape off the best soil, some ten inches at least, and that's the best soil too. When you clear by hand, the best soil is left on top, and the ashes from the burned brush are good, too. So on land cleared by machine you can only grow cane or rice, but on land cleared by hand you can grow anything." The disadvantages of mechanized land-clearing were not long a problem, because a singular technological reversal took place late in 1956, when many of the wealthy finqueros stopped using bulldozers and reverted to the traditional method of slash-and-burn to clear new fields for farming. A subsequent abrupt rise of 575 percent in the rental rates for machinery during January 1957 made the new technique more expensive than the old, and by October 1958, only four of the original twenty bulldozers remained in the area, and they are used almost exclusively for road-building and maintenance.

Crops raised on a commercial scale in the Camba region now are the following:

sugar cane *(cana, caña de azúcar)*	rice *(arróz)*
coffee *(café)*	cotton *(algodón)*

The approximate schedule of activities connected with commercial crops is as follows:

June:	clear and burn new land—seed cane—harvest cane—weed rice—harvest cotton
July-August:	clear and burn new land—seed cane—harvest cane—weed cane—harvest rice—plow and harrow for cotton
September-October:	weed cane—seed rice—seed cotton—seed coffee
November:	weed rice—seed cotton—seed coffee
December:	weed and thin cotton—rainy season begins—
January-February:	—rainy season; virtually no activity—
March:	harvest rice—weed cotton—weed coffee
April-May:	seed rice—harvest cotton

More detailed information on individual crops is briefly presented below, as a supplement to this general discussion of commercial farming.

SUGAR CANE.—The most important commercial crop among the Camba is sugar cane from which are produced two popular foods: sugar and alcohol. Since the cane is only a raw material which must be further processed to yield food, it is grown almost exclusively by finqueros who have the equipment and manpower to convert it, or to deliver it in large quantities to sugar mills or distilleries.

Land is cleared in the same manner as for other crops, and the holes made with a pointed stick are only slightly deeper and spaced about four feet apart. Mechanized land-clearing is satisfactory for cane which grows well in sandy subsoils. During June, July, or August, a three or four inch cutting from fresh cane is dropped into each hole and covered. Weeding is frequent and fairly thorough during the next three months until the plants are large enough to shade-kill all weeds around them.

The first crop begins to ripen in about a year. Harvesting by hand is a slow process, with each stalk having to be cut and

trimmed individually before being stacked in a *tarea,* a pile of standard size. After the cane is hauled away by oxcart or tractor-drawn wagon, the entire field is burned over, in order to dispose of the leaves and waste ends which are left, and "to lighten the soil." Subsequent crops mature in about ten months, and a stand of cane in good soil may be expected to produce for six or eight years, with size and sweetness increasing until the fourth or fifth year. In the first year a stand of cane should produce about 70 tons per hectare, and yields of almost double that amount have been reported from older plantings.

Except for small quantities of cane which are converted to crude sugar for local consumption within each finca, the total crop is sold to nearby sugar mills, or boiled to molasses for sale to alcohol distilleries. Cane has always been a popular crop in this area, but it is especially favored now because the Bolivian government has invested heavily in the sugar industry.

COFFEE.—Most finqueros raise coffee for domestic use and for sale. Coffee plants are a good long-term investment, but have never been popular as a commercial crop in this area because they require far more care than cane or rice, and do not give such immediate returns.

Bushes are planted about nine feet apart, in the shade of large trees. Because dense undergrowth is only trimmed and not uprooted, it must be cut back at least yearly. The bushes do not bear until the fourth year, and then another difficulty is evident: coffee, like rice, must be harvested in a critical few weeks after ripening, or the berries fall and the crop is lost.

After being hulled and sun dried, berries are stored or sold, with roasting and grinding deferred until just before use. A good yield for the first harvest is 1,000 pounds per hectare; plants bear for eight or ten years during which time the maximum yield may reach almost 3,000 pounds per hectare.

COTTON.—A single finca in the Camba region has been recently devoted to the production of cotton. The plant is a local perennial variety with short fibers, subject to several diseases and insect pests. The wealthy *kolla* owner who had been experimenting there for only a few years is vague about his success, and although his is one of the best equipped and best managed

farms around Santa Cruz, it is difficult to evaluate whether cotton is a commercially feasible crop.

Planting is done by hand in open prairie land which is prepared by plowing and thorough harrowing. Weeding between rows is done by a tractor-drawn harrow after the initial thinning of plants. Harvesting is also manual, and truckloads of Indian laborers are brought each year from the Cordillera for the brief harvest season. The crop is ginned and baled at the finca before being shipped to La Paz by truck. No detailed production figures are available.

RICE.—Rice is a staple food of the Camba which briefly became an important crop in commercial farming. Finqueros have always required large plantings of rice in order to feed their tenants, but there was seldom any appreciable surplus for sale. Methods of land-clearing, planting, cultivation, and harvesting of this crop were the same on fincas as in small subsistence plots, so that production was limited. The necessity of rapid harvesting by primitive manual techniques was the principal factor which imposed restrictions on the quantities which could be raised, even though finqueros hired the wives and children of tenants, as well as families of squatters and any other day-laborers they could find to help with the harvest.

A new kind of agriculture, very different from anything the Camba had known before, was developed with the introduction of mechanized agricultural implements in the pampa near Portachuelo. Fairly rich soil lies open and flat in this area, so that plows can be used to break the sod, and seeding machines and harvesters can also be employed. With such machines, it is possible to produce a large harvest of dry rice with a minimum of manual labor in a year of good rains. This kind of farming was practiced on a large scale by only a few finqueros who wanted to defend their land against expropriation in the early days of the agrarian reform, and who chose to rent and use agricultural machines as a means. Irrigation, fertilization, and crop-rotation were ignored by these finqueros as they are by all Camba, so that the yield per hectare was the same as by slash-and-burn techniques as used in jungle land—the greater effi-

ciency of mechanized rice cultivation appears to have been offset by the relative poorness of the soil. New techniques did, however, allow the harvesting of much larger areas in the crucial brief period after ripening and before the grains fall, so that far greater quantities could be produced than are feasible where harvest is by hand. Furthermore, costs of production were far less, because of the immense savings on labor.

The finqueros who produced rice in this manner were well aware of their advantageous position with respect to the market. They realized that, "Surely, we who had [agricultural] machines could control the price of rice in all Bolivia in a few years. We were just beginning, and you can see how we could cultivate much more than anyone else. To produce the most, that's the way to manage all production." Nevertheless, as soon as the threat of expropriation was no longer immediate, they abandoned the new farming methods and returned to small-scale hand cultivation in the wooded areas. In discussing prospects for their being able to dominate the national rice market, they had no doubts about the possibility but simply wondered, "Then, what's it worth? More business [means] more work. No, we Camba aren't like *kollas;* we prefer to live in a tranquil manner, perhaps with less money and political power, but with tranquility and serenity. That's the most important thing. Without that, money has no value." Large-scale commercial farming of rice, therefore, has not become a major economic activity among the Camba, although opportunities for profit are high.

OTHER COMMERCIAL CROPS.—A few other crops are grown on a small scale for sale in the Camba region. When finqueros have plaintain, yuca, orange, grapefruit, banana, maize, or other crops, even after allowing for the needs of their family and their tenants, the surplus is sold in local markets. Such overproduction is not systematic, however, and methods are the same as those used by *campesinos* in cultivating their subsistence plots. Commercial farming, therefore, is largely restricted to the crops discussed individually above.

Regional Taxation:

An Evaluation of the Western Hemisphere Trade Company Act

*By S. R. Sapienza**

The law allowing for Western Hemisphere trade corporations was a notably brief addition to the Revenue Act of 1942, passed in October, 1942, retroactive to December 31, 1941.[1] To be styled a "Western Hemisphere trade corporation", a company had to:

a. Carry on all its business in North, Central, or South America, or in the West Indies, or in Newfoundland;

b. Derive 95 percent of its gross income from sources outside the U. S., but within the area in (a) above;

c. Earn 90 percent of its gross income from the active conduct of a trade or business.

These restrictions made it necessary that a U. S. corporation, seeking to comply with the law, must operate within rather narrow tolerances both with regard to geographical limitations and restrictions regarding the nature of income.

If a U. S. corporation could comply with the law, a tax reduction of approximately 14 percentage points resulted. A Western Hemisphere corporation, therefore, using 1959 tax rates, pays approximately 38 percent federal corporate income tax, rather than a maximum of 52 percent.

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[1] *Revenue Act of 1942*, Section 141 (later changed to 109). Present section *Internal Revenue Code of 1954* is 921.

The law, and the tax benefit granted thereby, have remained substantially the same from 1942 down to date.[2] Every year recently, just as the robin acts as a harbinger of spring, a review of income earned overseas and taxation on such income takes place in Congress. This year, 1959 is no exception, as the Straus plan has been offered as a basis for taxing foreign-earned income.

The Western Hemisphere Company Act has been in effect for some seventeen years. Accordingly, it seems pertinent to evaluate the results. The Western Hemisphere Company Act impinges upon company operating techniques and organization, competition, international investment and relations, and U. S. corporate tax revenue and policy. While there are other effects, this article deals only with the aforementioned areas.

Company Operating Techniques. Fundamental to being classified as a Western Hemisphere trade corporation is the necessity of earning 95 percent of gross income outside the U. S., but within the Western Hemisphere.

Companies earning income from the sale of personal property in foreign areas had, therefore, to align their documentary procedure (shipping, financial, sales contracts, etc.) to the title passage rule, as this is the basis for determining the locus of income.[3] This has necessitated changes in shipping procedures, quotations ,and insurance coverage, alterations in existing sales contracts, and modification in payment procedures so as to assure conformity with the technical provisions of the law. Customer resistance to change existing situations is one result. Agents and middlemen overseas have objected to altering routines that seem ordinary and adequate. Trade channels, in short, must suffer considerable modification if a Western Hemisphere company status is to be achieved by a company exporting finished product from the U. S. Even for a company manufacturing

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[2] One change in 1954, affecting the source requirement, allowed "incidental purchases" to be made outside the Western Hemisphere. This supposed concession has only pinpointed a factor that might lead to disqualification.

[3] *East Coat Oil Co. v. Commission,* 31 BTA 558, 1934; *Brisky v. Commissioner,* 29 BTA 987, 1934; *Exalone v. Commissioner,* 45 BTA 844, 1941.

overseas, the extended benefit may be more apparent than real because of alteration in routines, administrative changes, and uncertainty as to Treasury rulings.

Companies earning income from offering services could rely on the rule that income is earned where the service is dispensed. These companies have had the assurance of a fairly definite standard for the determination of where their income has been earned. There has been the threat of disallowance where some staff operations occurred in the U. S., or where earning assets were kept in the U. S. for protective purposes.

One result of all this has been to crystalize two different points of view. Companies that have considerable investment overseas have maintained that the law was meant for them only, and they argue from the risks inherent in direct investment. Companies that try to comply by using intricate title passage techniques believe that the Congress meant to encourage export trade, and, therefore, their activities. These two camps carried on extensive efforts in recent Congresses (1954) to restrict and define the activities that receive the benefit, on the one hand, compared to the position that the U. S. should enlarge and generalize the law.[4]

Both manufacturers and exporters have attempted compliance. Whether the changes required to secure Western Hemisphere company status can be justified rests in possible tax savings, or other benefits. The fear of possibly being turned down by the tax authorities as a Western Hemisphere company after considerable expense and effort has caused many companies to conclude it was not worth the candle.

Company Organization. The Western Hemisphere Act has necessitated some changes in corporate organization.

Extending the analysis above, companies with overseas investments have had to do little, if any, corporate reorganization. Some of these companies that claimed Western Hemisphere company status had been chartered in the U. S. many years prior to

[4] See *Hearings before the Committee on Finance, United States Senate,* Eighty-third Congress, Second Session, on H.R. 8300, Part 2 at pages 865, 895, 917-18, 1675, 2217.

1942, the inception of the Act. For such a company, the "formation" of a Western Hemisphere company was a fiction. All that was required was an alert corporate tax organization that capitalized on an existing situation. For companies with large overseas operation already existent, specialization had occurred years ago and no gain arose from this quarter because of the Act.

Those companies trying to bring export sales under the Western Hemisphere Act had to actually charter a new U. S. company, in many instances, or use a dormant company. This "new" company became the channel through which export sales moved. In many cases the directors of the parent company were the same as the newly-formed Western Hemisphere company. Operating personnel, too, often wore two hats. For these exporters, specialization was not usually furthered because the duties of the new company were imposed on existing personnel.

It might be said, in short, that the Western Hemisphere corporation had purely tax advantages attaching to it and only potential organizational efficiencies. These efficiencies could come only if a company with overseas plants was willing to concentrate business in the Western Hemisphere under control of one or more Western Hemisphere companies in a division. Export companies would have to segregate duties and business so as to really give the new corporation substance as well as form.

Competition. The U. S. was at war in 1942 when the Western Hemisphere Act was passed. At that time, the Congress was contemplating an increase in tax rates to help finance the war. The basic objective of the Act was to give relief from the surtax and excess profits tax to those companies that could satisfy the conditions of the law.

The Senate, the motivating force behind the Act, stated that the new law would ". . . alleviate . . . competitive inequality." [5] While the term "competitive inequality" rings strongly as reason enough for the legislation, there are subtle overtones to this phrase. Such inequality could come from lack of diversified

[5] Senate Report No. 1631, Seventy-seventh Congress, Second Session, October 2, 1942, as reported in the *Internal Revenue Buletin,* July-December, 1942, p. 532.

lines, stringent terms, meager discounts, inefficient service, as well as high taxes on earnings. Much has been written since 1942 on the objectives of the law. These arguments run the range from special privileges to helping the war effort.[6] Whether any or all of these arguments prevail, if the competitive position of U. S. companies had been maintained or improved, there ought to be extensive use made of the Western Hemisphere Act.

Statistics of the number of Western Hemisphere companies reported in tax returns gives some indication of the reaction to the law by the business community. Beginning with 1945, these figures are available:

NUMBER OF WESTERN HEMISPHERE TRADE CORPORATION TAX RETURNS
1945-1951, 1953-1955

Year	*Number of Tax Returns*
1955a	668
1954a	687
1953a	663
1952	No data available
1951a	503
1950a	380
1949b	394
1948b	410
1947b	364
1946b	295
1945b	210

Sources: a. U. S. Treasury Department, *Statistics of Income for 1955,* Part 2, p. 125; 1954, p. 132; 1953, p. 17; 1951, p. 26; 1950, p. 26.
b. Letter to author from the U. S. Treasury Department.

These figures are subject to qualification because: (1) companies that are consolidated for purposes of taxation appear only as

[6] Bernad Tomson, S. Sidney Ullman, and Eliher W. Golden, "Let's Be Practical About Western Hemisphere Trade Corporations", Taxes—*The Tax Magazine,* December 1945, pp. 1120-1126. Louis Shere, "Taxation of American Business Abroad", *N. Y. U. Institute on Federal Taxation* (7th Annual Institute), 1948, p. 820. Tris Coffin, "Point 4 Corporations", *Nation's Business,* April 1953.

one return, whereas more than one Western Hemisphere corporation may be included in the single return; (2) if more than two returns are filed a year, for example, because of a change in accountancy periods, then both returns are counted in the total; (3) corporations reporting a loss in a given year may not claim Western Hemisphere company status since no tax benefit results. These factors tend to both overstate and understate the actual number of Western Hemisphere companies. It is the author's judgment that the number of companies exceeds the number of returns since consolidations often involve many companies and this factor tends to override any factors working the other way.

In a survey made by the author in 1955, 172 Western Hemisphere companies were found to be operating from 87 different parent companies, or roughly two Western Hemisphere companies per parent. While some of the companies surveyed consolidated their tax returns, most of these companies filed individually. The privilege of consolidating tax returns imposes an extra cost on the reporting company of 2 percent.[7] This extra 2 percent does not apply to the Western Hemisphere company income included in the tax return; but it does bear on all the other income contained in the return. Such an added cost acts as a deterrent to filing a consolidated tax return, even though any Western Hemisphere company income included therein is free of this burden. Considering these factors, there were probably fewer than 900 such companies extant in 1955. The number today is likely less than 1000, allowing for an increase that the statistics seem to indicate is occurring.

Number of companies alone does not prove or disprove the case that the Western Hemisphere company has been a boon to the competitive position of U. S. corporations. But there is some evidence that there was no wholesale shift to the use of Western Hemisphere companies. If we go back to the early years of the Act's existence on the theory that companies would be striving for Western Hemisphere company status because of its attraction, what do we find? In *Foreign Investment of the United*

[7] *Internal Revenue Code of 1954*, Section 1503 (b).

States, Census of 1950, by the Department of Commerce, it was estimated that 2000 separate business units (foreign subsidiaries, branches, etc.) operated in Latin America, alone. Other sources show that approximately 600 units were established between 1946 and 1950.[8] Tax returns filed between 1946 and 1950, containing Western Hemisphere companies, increased only 85 (see above) in this period. Even if it were argued that all 85 of these tax returns were really new endeavors and were centered in Latin America only, then only about one in seven new businesses were Western Hemisphere companies. This is highly problematical because of the nature of the business units considered and the fact that a Western Hemisphere company did not *need* to be a new endeavor.

The amount of income generated by Western Hemisphere companies of different sizes gives some clue of their importance in the trade competition of the Western Hemisphere. In both 1951 and 1950, approximately 87 percent of the total income arising from all tax returns containing Western Hemisphere companies was centered in approximately fifty tax returns.[9] For these same years, approximately 90 percent of the total income stemming from all tax returns containing Western Hemisphere companies arose from organizations with assets of $10,000,000 or more.[10] Similar results obtain for 1952, 1954, and 1945. In both of these cases, classification by income and total assets, larger companies appear to use the Western Hemisphere company apparently more effectively than smaller companies.

If income figures from tax returns including Western Hemisphere companies are compared with earnings from this area arising from U. S. direct investments, some indications appear to support the statement that the Western Hemisphere company had been an important factor in terms of Western Hemisphere trade income. Taking just the Western Hemisphere companies that claimed foreign tax credit, on the theory that they are likely

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[8] United Nations, *Foreign Capital in Latin America,* New York, 1955, p. 12.

[9] U. S. Department of Treasury, *Statistics of Income for 1951,* Part 2, p. 30; *Statistics of Income for 1950,* Part 2, p. 54.

[10] Ibid., 1951, p. 26; 1950, p. 47.

direct investors, the following table tends to point up the relationship between direct investment income and Western Hemisphere company income:

U. S. Income from Direct Investments in Canada and Latin America, Related to Western Hemisphere Trade Corporation Income for 1950, 1951, 1953-1955
($—billions)

Year	*U.S. Income from Direct Investments**	*Western Hemisphere Trade Corporation Income#*	*Percent*
1955	$1.5	$.7	47%
1954	1.2	.5	42
1953	1.2	.5	42
1952		No data available	
1951	1.3	.5	39
1950	1.1	.5	45

Sources: * U. S. Department of Commerce, *Survey of Current Business*, August 1956, p. 23.

Approximated by the author from: *Statistics of Income, Part 2*, 1955, p. 125; 1954, p. 132; 1953, p. 17; 1951, p. 26; 1950, p. 26.

The basis for this approximation was the formula:

$$\frac{\text{Western Hemisphere credit granted in dollars}}{\text{Percent Western Hemisphere credit granted for the given calendar year}} = \text{Western Hemisphere company income}$$

Thus, if non-Western Hemisphere company income is included by reason of consolidation, the above formula automatically excludes such income.

Use of the data in this manner assumes that Western Hemisphere corporations claiming foreign tax credit are likely direct investors. Although some of the income from direct investments comes from limited holdings by U. S. investors in foreign companies, this amount of income is probably very small and can be disregarded. Claimants of foreign tax credit normally are those companies that have plants, mines, equipment, and other assets located overseas and pay taxes to the local authority for the privilege of earning income there. If, as the data indicate, almost half of the income earned by U. S. direct investments in Latin America and Canada has been funneled through Western Hemisphere

companies, this seems to indicate the significance of the Western Hemisphere company as a factor in foreign commerce within the Western Hemisphere. Thus, a further general conclusion might be drawn that the Western Hemisphere company has played an important role in terms of U. S. Western Hemisphere trade income.

International Investment. The Western Hemisphere Act can be classified as a selective tax incentive because of the delineated area to which it applies. It might be assumed, therefore, that such a law would act as a spur to investment within this area.

As discussed above, some companies merely applied for Western Hemisphere company status by filing a tax return claiming such standing. Their organization and activity had been established in many cases years prior to the enactment of the law in 1942.[11] Thus, the Western Hemisphere Act did nothing to encourage companies already doing business to actually invest in the Western Hemisphere. In the years subsequent to first claiming status as a Western Hemisphere company, the tax savings arising from such a status might be used to increase investment overseas. This, however, is probably a slower way to increase investments overseas than the alternative in the form of a foreign chartered subsidiary. The foreign subsidiary can defer paying tax until earnings are remitted. The Western Hemisphere company, on the other hand, must pay tax year-to-year if a tax is due.

For Western Hemisphere companies operating on an export basis, the case to prove the Act as a causative investment factor is weaker still. By intent, export companies attempt compliance on a so-called "documentary" basis. They do not, typically, have much investment overseas.

The Western Hemisphere Act has probably been ineffective as a stimulus to foreign investment by U. S. companies. The company that had assets already committed overseas did not need to start operations but merely had to file its tax return properly. Other companies attempting compliance on an export basis con-

[11] Since some companies filed in 1942, it is plain that they could not have invested or started their business in that same year.

tributed to our export trade but little, if any, to foreign investment. The statistics below appear to confirm an attempt at compliance by an ever-increasing number of exporters against a relatively stable number of companies that are likely direct investors:

WESTERN HEMISPHERE TRADE CORPORATIONS CLAIMING FOREIGN TAX CREDIT AND NOT CLAIMING FOREIGN TAX CREDIT FOR 1950, 1951, 1953-1955

Year	*Claiming Foreign Tax Credit*	*Not Claiming Foreign Tax Credit*
1955	278	340
1954	278	332
1953	294	266
1952	No Data Available	No Data Available
1951	257	194
1950	228	114

Sources: U. S. Treasury Department, *op. cit.*

International Relations. The effect of the Act on U. S. relations with other Western Hemisphere countries is difficult to assess. Very few public expressions of opinion on the subject exist. One that seems fairly significant is that cited by a Senate Committee after a tour of Latin America. As the Committee reports: [12]

> United States firms should conduct more joint business enterprises with Brazilians. This would reduce the danger of nationalistic measures directed aaginst operations of wholly foreign concerns. It would also cut down on the need for remitting profits abroad, using up foreign exchange, since profits to Brazilians could stay in Brazil. The current Western Hemisphere Corporation Trading Act of the United States operates against this aim, however, because tax advantages are denied to joint United States-Brazilian ventures, but granted to ventures wholly-owned by United States citizens.

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[12] Senate Committee on Banking and Currency, *Study of Latin American Countries, Report No. 1082,* U. S. Government Printing Office, Washington, D. C., 1945, p. 151.

This statement is not wholly true that Western Hemisphere companies must be owned entirely by U. S. interests. Stock in such companies could be held by Latin Americans, if they so desired and it were available.

The above quotation does point up one possible effect of the Western Hemisphere Act. Probably one of the chief benefits derived from the Act is that companies have been able to maintain their U. S. charters despite the increase in U. S. corporate tax rates from 1942 levels. The prestige of a U. S. charter is assumed to be an important deterrent to any untoward action by foreign governments. This general feeling is exemplified currently by suggestion that the U. S. enact into law a special type of business entity through which companies could act "internationally" without arbitrary boundaries.[13]

U. S. Corporate Tax Revenue and Tax Policy. The 14 percentage points reduction granted to Western Hemisphere companies is an historical accident and in no way measures the risks inherent in foreign investment or trade, or the actual loss to the U. S. Treasury. There is, therefore, nothing sacrosanct about the amount of tax benefit granted to Western Hemisphere companies. Should the occasion arise, the area could be broadened and the percentage increased.

The Western Hemisphere company was granted an exemption from surtax originally because it was supposedly equitable tax treatment for companies that were *de facto* foreign companies even though *de jure* U. S. companies. Thus, freedom from U. S. surtax was granted these companies so that they would be subject, generally, to a foreign tax rate that approximated our normal rate through the operation of the foreign tax credit.

Recent statistics, gathered by the Randall Commission, indicate that foreign tax rates are approaching the Western Hemisphere company rate in Latin America, and are approximately the same in Canada.[14] As the foreign rates approach the Western Hemis-

[13] E. R. Barlow, and I. Wander, *United States Tax Incentives to Direct Foreign Investment,* Harvard Law School, Cambridge, Mass., 1954, pp. 36-54; R. C. Munsche, "International Corporation", *Taxes—The Tax Magazine,* July 1954, pp. 487-493.

phere company rate, the Western Hemisphere company involved may get little benefit from the application of a reduced rate because the foreign tax authority takes what is equivalent to 38 percent. Consequently, the tax loss to the U. S. Treasury may be very little, except where the alternative to th U. S. company is a non-Western Hemisphere company chartered in the U. S. This type of company would be subject to a maximum of 52 percent.

The loss to the U. S. Treasury may be determined by a comparison of the level of foreign rates and U. S. rates. Even where foreign tax rates appear lower than U. S. rates, the method of determining income may make the foreign rate considerably higher. For example, assume these figures:

	Income Calculated on a Foreign Basis		*Income Calculated on a U. S. Basis*	
Sales	$25,000		$25,000	
Cost of Sales and Expense	15,000	(Allocated overhead disallowed by the foreign tax authority)	20,000	(Includes $5,000 of allocated overhead)
Net Profit	$10,000		$ 5,000	
Foreign tax rate	.20			
Foreign taxes paid	$2,000			

If the allocated overhead is disallowed by the foreign tax authority, this increases the effective foreign rate from what appears to be a 20 percent $\frac{(\$\ 2{,}000)}{(\$10{,}000)}$ to 40 percent $\frac{(\$2{,}000)}{(\$5{,}000)}$. If these foreign taxes are all creditable against U. S. tax, a rate of even 38 percent on the U. S. basis will not give rise to any U. S. tax.

It would be difficult to determine the exact loss to the U. S. Treasury from the Western Hemisphere company. That there

[14] Commission on Foreign Economic Policy, *Staff Papers,* U. S. Government Printing Office, Washington, D. C., 1954, p. 107.

must be some benefit, and therefore dollar loss to the Treasury, is self-evident because companies do have Western Hemisphere corporations. Larger depletion allowances, or situations where the only alternative when operating on an export basis is a non-Western Hemisphere company paying 52 percent, these are instances where possible tax loss to the Treasury arises. The tendency for foreign taxes to rise over the years and for the foreign tax authorities to disallow certain items of expense has cut down any or much of the benefit derived by U. S. corporations, and, therefore, the tax loss to the U. S. government.

U. S. tax policy regarding foreign earned income has come under considerable fire in Congress, especially when H.R. 7725 was discussed.[15] The bill touched off a series of arguments as to type of organization (wholesale v. retail), method (export v. foreign manufacturer), location (Western Hemisphere v. whole world) that shoud benefit from any tax benefit. All the risks present in foreign trade cannot, of course, be compensated for by tax benefits. H.R. 7725 was scuttled because too many powerful interests tried to have the legislators draw up an "omnibus" tax bill with regard to foreign earned income. If the 14 percentage point reduction granted to Western Hemisphere companies stimulates the Congress toward writing a tax bill that offers benefit for risk, then the experiment with Western Hemisphere companies has been useful.

Summary. There is little doubt that the Western Hemisphere Act gave rise to "regional taxation". This restricted reduction, offered to the Western Hemisphere only, hardly seems in keeping with the U. S. investments that practically circle the globe. There is some reason to believe that the use of the Western Hemisphere company has been restricted, even within the Western Hemisphere, because of stringent requirements, uncertainties, and better alternatives.

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[15] Introduced July 29, 1955 by Rep. Cooper.

Recent Trends of Output and Efficiency in the Agricultural Production of Brazil, Minas Gerais, and Sao Paulo

*By Clifton R. Wharton, Jr.**

I. INTRODUCTION

This paper presents the results of a recent investigation into the trends of output and efficiency in the agricultural production of Brazil, and the states of Minas Gerais and Sao Paulo. Although the estimates were actually prepared for use in a more detailed study [1] and although no attempt is made to analyze or interpret the results, certain aspects of the study may prove valuable to interested researchers.

The efficiency estimates for Minas Gerais and Sao Paulo may be of special interest, since to my knowledge this particular technique has never previously been attempted with state data.

The Efficiency Measure. The change in the ratio of an output index to an input index between two time periods is frequently

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* The Council on Economic and Cultural Affairs, Inc.

[1] Clifton R. Wharton, Jr., "A Case Study of the Economic Impact of Technical Assistance: Capital and Technology in the Agricultural Development of Minas Gerais, Brazil," (unpublished Ph.D. dissertation, Department of Economics, University of Chicago, August, 1958).

The present study as well as the larger one has benefitted from the comments of several persons: Professors Theodore W. Schultz, D. Gale Johnson, Margaret G. Reid, H. Gregg Lewis, Carl F. Christ, and H. Zvi Griliches all of the University of Chicago; Professor James G. Maddox, North Carolina State University; Mr. John V. Deaver, Chase Manhattan Bank; and Sr. Jose Paulo Ribeiro, Associacao de Credito e Assistencia Rural.

used to estimate relative productive efficiency or technological progress.[2] These ratios have also been used in studying agricultural productive efficiency.[3]

The output index is a measure of total gross physical production, aggregated through the price weights of some base period. This index includes more than actual sales realized, rather the whole productive output of the agricultural enterprise; farm food consumed in the home, net changes in stock of productive animals are also included in this full measure.

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[2] Such ratios have had rather extensive use: M. A. Copeland and E. M. Martin, "The Correction of Wealth and Income Estimates for Price Changes," *Conference of Research in National Income and Wealth,* vol. II (New York: National Bureau of Economic Research, 1938) p. 127; George J. Stigler, *Trends in Output and Employment,* (New York: National Bureau of Economic Research, 1947), pp. 50-51; Glen T. Barton and Martin R. Cooper, *"The Changing Efficiency of the American Economy," The Review of Economics and Statistics,* vol. XXXIV (August, 1952), pp. 214-32; Vernon W. Ruttan, *Technological Progress in* the Meat Packing Industry, 1919-1947 Marketing Research Report No. 59, U. S. Department of Agriculture (Washington, D. C.: U. S. Government Printing Office, January, 1954); Solomon Fabricant, *Economic Progress and Economic Change* Thirty-fourth Annual Report, National Bureau of Economic Research (New York: National Bureau of Economic Research, May, 1954); Moses Abramovitz, "Resource and Output Trends in the United States Since 1870," *American Economic Review,* vol. XLVI, Proceedings, (May 1956); John W. Kendrick, *Productivity Trends, Capital and Labor,* Occasional Paper No. 53 (New York: National Bureau of Economic Research, 1956.

[3] Those for agriculture include: W. W. Cochrane, "Conceptualizing the Supply Function in Agriculture," *Journal of Farm Economics,* Vol. XXIX (May, 1947), pp. 383-408; Glen T. Barton and Martin R. Cooper, "Relation of Agricultural Production to Inputs," *The Review of Economics and Statistics,* vol. XXX (May, 1948), pp. 117-126; Theodore W. Schultz, *The Economic Organization of Agriculture* (New York: McGraw-Hill, 1953), pp. 99-109; Clarence A. Moore, "Agricultural Development in Mexico," *Journal of Farm Economics,* Vol. XXXVII (February, 1955), pp. 72-80; Clarence A. Moore, "Recent Developments in Brazilian Agriculture," *Journal of Political Economy,* vol. LXIV (August, 1956) pp. 341-66; Theodore W. Schultz, "Reflections on Agricultural Production, Output, and Supply," *Journal of Farm Economics,* Vol. XXXVIII (August, 1956), pp. 748-62; Andrew G. Frank, "General Productivity in Soviet Agriculture and Industry: 1928-1955," The Ukraine, *Journal of Political Economy,* LXVI (December, 1958) pp. 498-515; Marto A. Ballesteros, "Argentine Agriculture, 1908-1954: A Study in Growth and Decline," (Unpublished Ph.D. Dissertation, Department of Economics, University of Chicago, August, 1958).

On the input side, indexes are constructed for the major factor classifications measured in either physical units or constant value terms. These indexes are then aggregated by a system of weights which represent the proportionate contributions of each input category to the total in the selected base period. The contribution of labor is measured through the total value of the wage bill; that of land is measured by some interest rate applied to its total value; the value of buildings, farm equipment, and work animals is converted to a flow through an appropriate interest rate and depreciation rate.

One may criticize such ratios as a measure of productive efficiency or technological progress.[4] As Ruttan points out, such a ratio is an exact measure of technological change only under rather restrictive conditions:

1. The firm or industry must operate under conditions of equilibrium in the base year and subsequent periods;

2. The production function must be homogenous of degree one (constant returns to scale);

3. Prices of the factors of production relative to each other and the prices of products relative to each other must remain unchanged; and

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[4] For a good summary of dangers see Thomas T. Stout and Vernon W. Ruttan, "Regional Patterns of Technological Change in American Agriculture," *Journal of Farm Economics,* vol. XL (May, 1958), 196-207. Also, Ruttan, *Technological Progress in Meatpacking,* pp. 15-20; George W. Ladd, "Biases in Certain Production Indexes," *Journal of Farm Economics,* Vol. XXXIX (February, 1957), pp. 75-85; Ralph A. Loomis, "Effect of Weight Period Selection on Measurement of Agricultural Production Inputs," *Agricultural Economics Research,* Vol. IX (October, 1957), pp. 129-135; Robert Solow, "Technical Change and the Aggregate Production Function," *The Review of Economits and Statistics,* Vol. XXXIX (August, 1957); Vernon W. Ruttan, "The Contribution of Technological Change to Farm Output, 1950-75," *The Review of Economics and Statistics,* Vol. XXXVIII, (February, 1956) pp. 61-69; Zvi Griliches, "Specification Bias on Estimates of Production Functions," *Journal of Farm Economics,* Vol. XXXIX (February, 1957), pp. 8-20; Earl O. Heady, "Output in Relation to Input for the Agricultural Industry," *Journal of Farm Economics,* Vol. XXXVIII (August, 1956), pp. 748-762; T. W. Schultz, "Output-Input Relationships Revisited", *Journal of Farm Economics,* Vol. XL (November, 1958) pp. 924-932.

4. Technological progress must be "neutral", i.e., the effect of any technological innovation must be independent of the particular combination of inputs used in the base period.

If these conditions are met and if there is an increase in the ratio, this implies securing a larger output from a given input bundle than had previously been possible, indicating an improvement in technology or productive efficiency. Under this formulation, technology is viewed as increasing the efficiency of the productive process—more total output per given bundle of input resources.

Underlying all these conditions and problems in the specific case of agriculture is yield variability due to weather and other exogenous forces. The fluctuating pattern of agricultural output makes it considerably more difficult to discern the real trends in efficiency on a year to year basis for short periods.

Another possible weakness of this approach for the present study is the assumption of constant returns to scale, for under this restriction it is impossible to detect any non-technological factor which actually is giving rise to increasing or decreasing returns. All such net effects would be ascribed to technology. Criticism has been made that this is too restrictive an assumption in the case of underdeveloped areas which are short on capital (implying that capital in such areas is possibly subject to increasing returns).[5]

Although these difficulties were realized, it was felt that this approach might provide some useful insights and experience, provided its limitations were realized. Some attempt at the use of this technique was particularly desirable since to my knowledge this approach had never previously been attempted with state data.[6]

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[5] This criticism was made of Moore's study of Mexico. (James G. Maddox, "The Growth of the Mexican Economy," American Universities Field Staff Letter, June 14, 1956, pp. 18-19). Implicit in this view is the opinion that international equilibration of the capital market is hampered by international institutional barriers.

[6] This approach is currently being tried with regional U. S. data. Vernon W. Ruttan, "Agricultural and Non-Agricultural Changes in Output Per Unit of Input," *Journal of Farm Economics, Vol. XXXIX* (December, 1957), and Stout and Ruttan, *op. cit.*

Previous Estimates of Brazilian Agricultural Output and Input. Indexes estimating Brazil's total yearly agricultural output are more plentiful than estimates of Brazil's total yearly agricultural input.

A. Agricultural Output: Several series estimating the total yearly output of Brazilian agriculture have been published. One is published by the Economic Commission for Latin America (see Table 1). A second output series is prepared by the Laboratorio Estatistica do Conselho Nacional de Estatistica and is published by the Instituto Brasileiro de Geografia Estatistica in its *Anuarios Estatisticos.* A third is prepared by the Foreign Agricultural Service of the U. S. Department of Agriculture. A few discontinued series are also available.[7]

Despite minor differences, these output indexes reveal a noticeable lag in the growth of Brazilian agriculture compared with its industry. In the fourteen year period from 1940-1954, the ECLA series show that the industrial sector of Brazilian gross national product rose to 285 compared with 140 for the agricultural sector.[8]

A growth of 40 per cent in fourteen years may be considered quite notable in the case of agriculture, but a cursory examination of this growth in Brazil reveals some interesting underlying phenomena.

(1) Production per hectare for various major crops, domestic and export, shows little change. From 1938 through 1955, pro-

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[7] Institute of Inter-American Affairs, *The Development of Brazil,* (Washington: Foreign Operations Administration, U. S. Government Printing Office, December, 1953), p. 291; ECLA, *Economic Survey of Latin America 1949,* (New York: United Nations, 1950, p. 206; and an earlier series in the IBGE *Anuarios Estatisticos,* pre-1952 containing only 14 crops.

[8] The Brazilian economy expanded its gross national product at an annual average rate of 5.5 per cent per year during the ten year period 1945-1955. Even when we take account of Brazil's population expansion of 2.4 per cent per year during the same period, the annual rate of per capita growth in Brazil's gross national product is still a creditable 3 per cent per year. These growth rates are geometric averages computed from data in United Nations, Economic Commission for Latin America, *Economic Survey of Latin America 1955,* (New York: United Nations, 1956), p. 14.

duction per hectare for coffee, corn, rice, sugar, and manioc (cassava) have remained virtually unchanged; some crops like tobacco, cotton, cacao and beans may have even declined. None of these nine crops show any decided upward trend.[9]

(2) Most revealing are the data for individual states on production per hectare.[10] Not only has there been a transfer of production among geographic regions, but offsetting rates of production per hectare have taken place. For example, while coffee and cotton production per hectare have gone down in Sao Paulo, they have gone up in Minas Gerais; while beans, manioc and sugar have declined in Minas, they have gone up in Sao Paulo.[11]

(3) All this agricultural activity was taking place against a highly inflationary background, for Brazil has been experiencing an inflation which from 1939 through 1953 proceeded at a rate of 12.3 per cent per year. During the same period, the agricultural price index was rising at a rate of 15.6 per cent per year.[12]

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[9] See various issues of IBGE, *Anuario Estatistico;* also, Wharton, *op. cit.,* Table 2.5, p. 21.

[10] *Ibid.,* Table 2.6 p. 22, and Table 2.7 p. 23.

[11] Although Brazil is the largest South American nation in terms of its physical area, much of its gross national product is concentrated in a relatively small geographic region. The single state of Sao Paulo accounts for 33 per cent of Brazil's national income. Further, the Federal District and the three states of Minas Gerais, Sao Paulo, and Rio de Janeiro, account for 62 per cent. If we include the three additional states of Rio Grande do Sul, Parana, and Espirito Santo, virtually, 80 per cent of Brazil's gross national product is accounted for by six states and the Federal District.

Almost the same concentration will be seen for that portion of gross national product generated by the agricultural sector—a little less than 30 per cent in Sao Paulo, and 72 per cent in the same six states.

Agricultural concentration is especially notable in the case of Sao Paulo and Minas Gerais. Together these two states account for 64 per cent of Brazil's coffee—her major export—and between 30 and 50 per cent of Brazil's total production of corn, rice, beans, cattle, and pigs—the major ingredients in the domestic diet. (See Wharton, *op. cit.,* pp. 13-15).

[12] Computed from price indexes published in ECLA, *Analyses and Projections of Economic Development II: The Economic Development of Brazil,* (New York: United Nations, 1956) pp. 70, 76. These series cover the period 1939 to 1954 and use 1939 Quantity weights.

(4) Brazilian agricultural policy during much of this period tended to penalize certain agricultural exports by specifying exchange rates which did not fully represent the depreciation of the cruzeiro, while maintaining a rather neutral policy toward domestic production. This policy produced a strong stimulus for a shift away from production for export to production for domestic consumption.

B. Agricultural Input. The only previous input indexes (and output/input indexes) for Brazilian agriculture were constructed by Professor Clarence A. Moore.[13]

To my knowledge no output or input indexes are available for the individual states of Minas Gerais or Sao Paulo.

The Present Study. Entirely new indexes of agricultural output and input were prepared for Brazil and the individual states Minas Gerais, and Sao Paulo. Indexes were prepared for Brazil as a whole, Brazil (adjusted), Minas Gerais, and Sao Paulo. The "Brazil (adj.)" series is Brazil without Minas Gerais (these were prepared to compare the Minas Gerais set against the rest of the country).[14]

Two sets of output indexes were constructed; the first using 1940 price weights and extending from 1940 through 1955; the second, 1950 price weights and extending from 1944 through 1955. The first set was derived from the physical output of twenty-one crops, thirteen extractive vegetable crops, and four major categories of livestock (including yearly changes in stock). The second set was derived from the physical output of twenty-nine crops, sixteen extractive vegetable crops, and the same livestock base. The yearly output of each crop or livestock item was multiplied by its respective base year price for yearly aggregation and conversion to an index.

Three sets of input indexes were prepared. The first, "Set

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[13] Clarence A. Moore, "Recent Development in Brazilian Agriculture," *Journal of Political Economy*, Vol. LXIV, (August, 1956), pp. 341-46.

[14] As previously mentioned, the states of Minas Gerais and Sao Paulo dominate Brazilian agriculture. The exclusion of Minas Gerais in this particular series was necessary in order to insure independence for a statistical test of the difference between Minas Gerais and the rest of Brazil (see Section V below).

A", used 1940 value weights (1940-1955); the second, "Set B", used 1950 value weights (1944-1955); the third, "Set C", 1940 value weights (1940-1955). The only difference between Sets A and C is the depreciation rates, the latter using the same rates as in Moore's study.

The following sections of this paper will present the detailed procedures used in the construction of these new indexes of output and input. Section II is on output indexes; Section III, on input indexes; Section IV, on output/input ratios; Section V, on slope tests; and Section VI, on comparisons with other indexes.

II. OUTPUT INDEXES

Three major output classifications were set up: (1) crops, (2) extractive vegetable crops, and (3) livestock.

The major source for most data was the *Anuario Estatistico do Brasil* [15] of the Instituto Brasileiro de Geografia e Estatistica. In a few cases the *Anuario Estatistico de Minas Gerais* [16] and the *Revista Brasileira de Estatistica* [17] were used to fill in missing pieces.

Crops. In 1940, the Servico de Estatistica da Producao was reporting on 21 crops.[18] In 1944, this was increased to 29; [19]

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[15] The IBGE secures its data on agricultural production from the Servico de Estatistica da Producao of the federal Ministerio da Agricultura. Crop and livestock numbers estimates are made by the county statistical agent based on visits to farms and interviews with farmers, buyers, inspectors, etc. For livestock products, slaughterhouses and packing houses are required to keep books on their operations and return monthly reports to the Bureau of Production Statistics. In each county, there is a municipal statistical agency, maintained and directed by the county government, but supervised by the National Council of Statistics. The municipal agent is responsible for all statistics collected in his county, not only agricultural statistics. There are also special traveling agents who have been trained in agricultural statistics to check on the work of the county agent. Each region or state also maintains a statistical office.

The central agency for agricultural statistics is the Bureau of Production Statistics (Servico da Producao) of the Ministry of Agriculture. All questionnaires are edited in the county office, but tabulation may done at any one of the three levels.

[16] Published by the Departmento Estadual de Estatistica, Minas Gerais, Brazil.

[17] Published by the IBGE.

and today it reports on 48. Information usually covers area cultivated,[20] physical production (in metric tons or some other physical measure), and the value of the production in current cruzeiro prices. These data are summarized by the five major regions [21] and by individual states.

There is some question as to how much of farm produced food consumed in the home is included in these production estimates.

Two basic output series were prepared for Brazil, Minas Gerais, and Sao Paulo: (1) using 1940 prices and the physical production of 21 crops, and (2) using the 1950 prices and the physical production of 29 crops. Separate base year prices for each crop were secured for Brazil and the two states using their value of production in 1940 and 1950.

Extractive Vegetable Crops. In 1940, thirteen crops were being reported on.[22] In 1944, three more were added.[23] The exact same information is provided as in the case of crops, and the same procedure was followed in the construction of the output indexes. In both Minas Gerais and Sao Paulo, this particular output category is of minor importance.

Livestock. Four groups of livestock were included: (1) cattle, (2) swine, (3) sheep, and (4) goats. Animal products are not included.[24] The livestock prices paid to farmers were

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[18] The 21 crops were pineapple, alfalfa, cotton (ginned and cottonseed), rice, oats, bananas, potatoes, cacao, coffee, sugar cane, rye, barley, cocoa nuts, beans, tobacco, oranges, castor seed, manioc, corn (maize), wheat and grapes.

[19] The crops added were: garlic, peanuts, sweet potatoes, onions, tea, broad beans, tomatoes, tung wood.

[20] Whether the area is that planted or harvested is unclear. Double-cropping and interplanting are common so that some overstatement is undoubtedly present. In the case of perennial tree crops—coffee, oranges, etc.—the area represents that covered by the trees bearing fruit.

[21] North, Northeast, East, South, West-Central.

[22] Babassu, rubber, caroa, Brazil nuts, carnauba wax, licuri wax, licuri cocoanuts, mate, guarana, jarina, oiticica, piassava, timbo.

[23] Sisal, guaxima, jute.

[24] Among those items missing are: fowl, milk, eggs, honey, beeswax, cocoons. The serious omissions are milk and wool (both are included in the FAS/USDA series).

not available so that the value of meat produced in the meat packing industry was used (divided by the number of head slaughtered).[25] The hog price used was about 40-50 per cent below the estimated hog price received by the farmer. However, no upward revision in price was made since it was assumed that this differential was equivalent to the value of the corn consumed by the hogs.[26] This avoided double counting in the output measure. No appreciable quantities of corn are fed to other livestock so that this possibility of double counting was ignored.

The measure of production in each group was the number of head slaughtered *plus* the change (number) in stock. Some difficulty was encountered in the early years as far as yearly stock data.[27]

Again two sets of output indexes were prepared using 1940 prices and 1950 prices for Brazil, Minas Gerais, and Sao Paulo.

The Output Indexes. Tables 2 and 3 summarize the output indexes for Brazil, Brazil (adj.), Minas Gerais, and Sao Paulo as three year moving averages.

The 1940-1955 agricultural output series for Brazil show a growth rate of 3.1 per cent per year compared with a 3.7 per cent rate for the 1945-1955 series.[28]

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[25] The value of meat produced in the meat-packing industry was presumed to include some value-added by the industry. But since the meat was not the only product from an unprocessed animal, the value of the meat including the value added was assumed to be more or less equal to the price received by the farmer for the animal on the hoof. Prices secured in this fashion were also compared with the actual prices received by a sample group of farms in Minas Gerais; the only noticeable divergence was in the case of swine which has so many derivative products of value in addition to meat.

[26] Ballesteros, *op. cit.*, p. 16 used a similar procedure for his study in Argentina.

[27] For a description of the method used to secure yearly stock figures see section on inputs below. Brazil experienced a severe hog cholera epidemic in 1946 and hog stocks were not restored to previous levels until 1948.

[28] These growth rates are geometric averages calculated on the yearly indexes (non-moving averages). The comparable growth rates for Minas Gerais and Sao Paulo for the 1945-1955 period were 2.6 per cent and 2.1 per cent respectively.

INPUT INDEXES

Four major input classifications were set up; (1) Land, Buildings and Improvements; (2) Machinery, Equipment, Work Animals, Cash Operating Expenses; (3) Productive Animals; and (4) Labor.

As is usually the case in such studies, the input index presents the more serious problems—not only to avoid errors of measurement but just to get any useful measure at all.

Land, Buildings, Improvements. This input was measured in physical units (hectares). The only figure available annually is hectares cultivated for specified crops;[29] pasture land is available only for the two census years 1940 and 1950.

Fortunately, the proportion of crop land to total cultivated land (crops plus pasture), did not change significantly over the ten year span:

	Brazil Per Cent Cultivated Land in:	
	Crops	*Pasture*
1940	17.6	82.4
1950	15.7	84.3

Thus a total index for land—crop plus pasture—was constructed breaking down its ten year census change into yearly changes which were proportionate to the yearly index for crop lands.

Farm buildings and improvements were assumed to move synchronously with the land index and their effect was explicitly taken account of in the construction of the weight for this input.

Farm Machinery, Equipment, Work Animals and Cash Operating Expenses. No yearly measures for any of these inputs were available. The 1940 and 1950 census data were used as benchmarks with the intervening years tied to the land index. All cruzeiro figures for 1950 were deflated.[30]

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[29] The 21 crop series, 1940 through 1955, and the 29 series, 1944 through 1955.

[30] The deflator used was 405 per cent even though the ECLA figures (see Table 5 above) when converted to a 1940=100 index showed a rise to 481. The general price index converted to 1940=100 (See ECLA, *Economic Development of Brazil,* p. 70) showed a rise to 326. To take account of input purchases subject to the general price level, it

Cash operating expenses excludes salaries to "parceiros" (share-croppers and renters) since their labor is included in the labor component. As such it represents such purchases as seed, plants, fertilizer, taxes, oil, gas, insecticides, and the transportation of products.

Undoubtedly, the most potent force in this input category was machinery and equipment. According to Moore during the period from 1940-44 to 1945-49 farm machinery increased almost 50 per cent.[31]

Stock of Productive Animals. The animals included in this input were cattle, swine, sheep and goats. Figures for Brazil were available for 1940, 1946, 1948, and 1949 through 1955.[32] Those for Minas Gerais, 1940, 1944 through 1950, 1952, 1953, and 1955;[33] those for Sao Paulo, 1940, 1946, 1948, 1950, 1952, 1953, 1955.[34] Missing years were estimated by allocating the total change equally among the intervening years.

The beginning and year end stock were averaged to arrive at an average stock for the year. A total index for all productive animals was prepared by weighting each of the four with base period prices and aggregating.

Labor. The labor index is the number of persons economically active in agriculture ten years of age and over. This index was constructed in the same fashion as Moore's by breaking down the ten year census change in the number of economically active into yearly changes which were proportionate to the yearly growth

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was assumed that they represented approximately 25 per cent of total input purchases and output sales, and that the remainder was subject to the agricultural price index; both indexes were weighted accordingly to arrive at the 405.

[31] Moore, *op. cit.*, p. 344.

[32] From the IBGE, *Anuarios Estatistico do Brasil.*

[33] The 1944 through 1949 series were secured from the *Anuario Estatistico de Minas Gerais,* 1950, pp. 179, 187-188; the rest were from *Anuario Estatistico do Brasil.*

[34] A correction was made in the 1946 and 1948 cattle figures as reported in the *Anuario Estatistico do Brasil;* the new figures were reported in Banco do Brasil, *Estado de Sao Paulo,* Quarto Centenario da Fundacao da Cidade de Sao Paulo, (Rio de Janeiro; Banco do Brasil, 1954), p. 337. The other figures were from the *Anuario Estatistico do Brasil.*

in total population. Age differentials in terms of full-time man equivalents were taken into account through a weighting process. In the 1940=100 input series, children 10 to 18 years of age were counted as ½ full man equivalents and women over 18 were counted as ¾ full man equivalents. In the 1950=100 input series, children 10 to 18 and women were weighted on the basis of information from a sample of farms in Minas Gerais.

The wage rates used to construct the weights:

	1940[35]	*1950*[36]
10-18	Cr$ 750	1,800
Women	1,125	1,800
Men	1,500	6,000

The Input Indexes. Three sets of aggregate input weights were constructed:

Set A employed 1940 prices and certain estimated depreciation rates. Set B employed 1950 prices and the same estimated depreciation rates. Set C employed 1940 prices and Moore's depreciation rates.

The two depreciation rates which differed were on buildings and farm machinery and work animals:

	Present Study	*Moore*
Buildings	5	7
Farm Machinery,	13	15
Work Animals	13 [37]	15

The resulting weights which are applied to the individual input indexes are summarized in Table 4.

The input indexes for Brazil, Brazil (adj.), Minas Gerais, and Sao Paulo are summarized in Tables 5, 6, and 7.

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[35] The same as used by Moore.

[36] These were based on the daily wage rates reported by a sample of farms in Minas Gerais and estimating a 270 day year for men and an 81 day year for women and children.

[37] The 13 per cent rate on farm machinery was arrived at assuming a 10 per cent depreciation on work animals, a 15 per cent depreciation on machinery and agricultural equipment, and a 25 per cent depreciation on other implements (mostly small hand tools). These rates were then weighted by their 1950 value as reported in the census. The results: Brazil, 12.7; Minas Gerais, 13.1; Sao Paulo, 12.7.

OUTPUT/INPUT RATIOS

The output/input ratios for the various indexes are summarized in Tables 8, 9, and 10. The 1940 weight (1940-1955) agricultural efficiency series for Brazil show a growth rate of 1.3 per cent per year compared with a 1.6 per cent rate for the 1950 weight series (1945-1955).[38]

SLOPE TESTS

Simple linear regressions of the output indexes and the output/input indexes on time were calculated. The results are summarized in Table 11. Three-year moving averages were used in all cases except Minas Gerais (1948-1954) to even out year-to-year variations in output.

Slope tests were made of Minas Gerais against Brazil (adj.) for both output/input and output indexes. Both were significant at the 1 per cent level.[39] This test therefore rejected the null hypothesis that there was no difference between the trends in Minas Gerais and the rest of Brazil.

COMPARISONS WITH OTHER INDEXES

The 1940 price weight output series on Brazil is compared with the major ones published on Brazil in Table 12. Although most appeared originally with different base years, they have been converted to a uniform base year. Minor differences between the indexes of the present study from others were observed in the

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[38] These growth rates are geometric averages calculated on the yearly indexes (non-moving averages). The comparable growth rates for Minas Gerais and Sao Paulo for the 1945-1955 period were 1.55 per cent and 1.58 per cent per year respectively.

[39] This procedure assumes that you have two statistically independent slope estimates "b" and you wish to test the hypothesis that $Eb_i = Eb_j$. The variance of the observations around the regressions in both populations is assumed to be the same and a pooled estimate of the variance is found by $s^2_{b_i - b_j} = s^2_{b_i} + s^2_{b_j}$.

A test is then applied to the difference in the slope coefficients as follows:

$$t(N_1 + N_2 - 4) = \frac{b_i - b_j}{s_{b_i - b_j}}$$

following periods: 1943-44 (from ECLA and IBGE); 1946-47 (from ECLA). More marked ones were seen in: 1950-51 (from IBGE); 1952-53 (from ECLA and IBGE). Most of the differences were traced to differing weights or to differing composition (items covered).

The two output series of the present study were also compared to see if there were any serious divergences due to the differing weighting periods. (See Table 13). Particular attention was given to the Minas Gerais series. It was found that the two series conformed very well for all years except 1952 and 1953. A careful investigation was made of the changes in relative prices (weights) of the major crops in Minas Gerais (similar studies were made for Brazil and Sao Paulo). In 1952, there was a 21.8 per cent drop in the physical volume of coffee production in Minas Gerais so that the 1950 weight of 36.2 per cent would imply a 7.89 per cent drop in the crop index:

MINAS GERAIS

	Per Cent of Total Crop Output (Value)	
	1940 Price Weights	*1950 Price Weights*
Rice	18.25	16.51
Coffee	15.73	36.20
Beans	11.66	6.58
Corn	29.54	18.10
Sugar Cane	9.00	5.05
Manioc	3.05	5.51

Also, comparisons were made on the relative importance of crops and livestock in Minas Gerais using the differing weights.

Set A and Set C output/input indexes were compared with Moore's and showed a fair degree of conformance for comparable periods (note that Sets A and C are virtually identical). A simple linear regression of the Set A index and Moore's on time (beginning in 1940) produced a slope coefficient of 1.10 for the Moore series and 1.20 for Set A.

The output/input series, Sets A and C, of the present study are compared with Moore's in Table 14.

In general, the results for Brazil as a whole do not seem to involve serious differences between the present series and other output and output/input studies. This gives a certain degree of confidence in the construction methods and the accuracy of the state series for Minas Gerais and Sao Paulo.

TABLE 1

INDEXES OF BRAZILIAN GROSS NATIONAL PRODUCT, 1940-1954, TOTAL, INDUSTRY, AGRICULTURE.[a]

(1939=100)

Year	Total [b]	Industry [c]	Agriculture [d]		
			Total	*Domestic*	*Export*
1940	100.1	105.1	94.7	95.4	95.4
1941	104.9	116.1	100.3	106.4	96.4
1942	101.6	112.0	93.9	107.2	78.1
1943	104.4	125.0	98.4	110.3	95.2
1944	109.6	130.1	98.7	118.8	88.9
1945	117.1	137.1	97.7	124.9	78.3
1946	128.6	160.2	107.5	141.1	82.5
1947	138.9	167.2	108.0	141.2	81.3
1948	146.8	183.1	113.6	148.8	82.9
1949	150.8	194.2	119.7	153.2	92.0
1950	161.9	216.1	125.2	165.7	92.5
1951	173.0	233.6	125.0	166.8	88.0
1952	180.2	249.1	131.0	167.6	104.2
1953	187.7	265.6	131.1	179.7	90.0
1954	201.2	284.5	140.7	184.0	96.0

[a] Source: ECLA, *Economic Development of Brazil,* pp. 14, 75.

[b] The total index uses a Paasche formula, with the series of real value weighted in each year by the price index which was obtained by dividing the index of value for each major product sector by the corresponding quantity index.

[c] The industrial index uses a Laspeyres formula with 1939 price weights.

[d] The agricultural indexes use a Laspeyres formula with 1939 price weights. The total includes eighteen main crops. Production for export comprises coffee, cacao, and cotton (fibre and seed).

TABLE 2

SUMMARY OF AGRICULTURAL OUTPUT INDEXES (THREE YEAR MOVING AVERAGES) FOR BRAZIL, BRAZIL (ADJ.), MINAS GERAIS, AND SAO PAULO, 1941-1954 [a]
1940 PRICE WEIGHTS (1940=100.00)

Year	*Brazil*	*Brazil [b] (adj.)*	*Minas Gerais*	*Sao Paulo*
1941	103.13	104.20	97.30	107.33
1942	105.94	107.52	97.38	114.49
1943	106.82	107.76	101.73	113.29
1944	108.61	109.92	101.49	111.86
1945	111.39	112.34	106.25	109.62
1946	112.86	114.43	104.34	107.02
1947	116.74	117.17	114.44	108.94
1948	120.05	120.96	115.11	106.74
1949	124.65	125.76	118.65	108.71
1950	128.14	130.12	117.44	114.30
1951	133.04	135.97	117.16	122.09
1952	136.04	139.41	117.71	123.59
1953	142.34	147.04	116.80	123.27
1954	147.83	151.98	125.34	122.89

[a] Source of original basic data from which the indexes were computed is from various issues of IBGE, *Anuarios Estatisticos.*

These indexes of physical agricultural output were constructed using 1940 price weights. The output measure covers 21 crops, 13 extractive vegetable crops, and 4 major categories of livestock (including yearly changes in stock). The yearly output of each individual crop or livestock item was multiplied by its respective base year (1940) price to enable yearly aggregation and conversion into an index of total output.

[b] Brazil without Minas Gerais.

TABLE 3

SUMMARY OF AGRICULTURAL OUTPUT INDEXES (THREE YEAR MOVING AVERAGES) FOR BRAZIL (ADJ.), MINAS GERAIS, AND SAO PAULO [a]
1950 PRICE WEIGHTS (1944=100.00)

Year	*Brazil*	*Brazil* [b] *(adj.)*	*Minas Gerais*	*Sao Paulo*
1945	102.00	102.19	101.01	99.86
1946	104.37	104.88	101.68	100.12
1947	108.98	108.95	109.11	105.80
1948	112.83	113.29	110.42	106.97
1949	117.39	118.37	112.26	110.24
1950	120.29	121.86	112.07	112.46
1951	124.40	127.10	110.26	117.73
1952	127.02	129.76	112.66	117.98
1953	131.73	135.44	112.28	118.17
1954	137.82	140.98	121.27	118.04

[a] Source of original basic data from which the indexes were computed is from various issues of IBGE, *Anuarios Estatisticos.*

These indexes of physical agricultural output were constructed using 1950 price weights. The output measure covers 29 crops, 16 extractive vegetable crops, and 4 major categories of livestock (including yearly changes in stock). The yearly output of each individual crop or livestock item was multiplied by its respective base year (1950) price to enable yearly aggregation and conversion into an index of total output.

[b] Brazil excluding Minas Gerais.

TABLE 4

SUMMARY OF PERCENTAGE INPUT WEIGHTS, ASSIGNED TO MAJOR INPUT CATEGORIES FOR AGRICULTURE IN BRAZIL, MINAS GERAIS, AND SAO PAULO [a]

Item:	*Land Bldgs.*	*Wk. Anim. Mach., Eq., Cash. Op. Exp.*	*Animals Prod.*	*Labor*
SET A:				
1940 Weights [b]				
Brazil	18.44	5.31	10.09	66.17
Brazil (Adj.)	18.27	5.24	9.78	66.70
Minas Gerais	19.17	5.59	11.43	63.81
Sao Paulo	21.79	9.79	7.50	60.93
SET B:				
1950 Weights [b]				
Brazil	24.30	10.62	10.50	54.57
Brazil (Adj.)	24.67	11.27	9.60	54.46
Minas Gerais	22.49	7.48	14.90	55.13
Sao Paulo	31.07	15.10	8.93	44.90
SET C:				
1940 Weights [c]				
Brazil	18.87	5.44	10.01	65.68
Brazil (Adj.)	18.73	5.37	9.71	66.19
Minas Gerais	19.51	5.74	11.34	63.40
Sao Paulo	22.29	9.95	7.42	60.33

[a] The percentage weights were derived by determining the proportionate contribution of each input category to the total inputs in the selected base year. Contributions are measured in stocks rather than flows. Stocks are converted to flows by the appropriate interest and/or depreciation rate. Changes in each factor input were weighted by its respective percentage weight for aggregation into an index of total inputs. (See tables below).

[b] Land, 12.5 per cent interest on its cruzeiro value; Buildings, 12.5 per cent inteerst plus 5 per cent depreciation on its cruzeiro value; Farm Machinery and Work Animals, 12.5 per cent interest plus 13 per cent depreciation on their cruzeiro value; Cash Operating Expenses, actual cruzeiro expenditure; Productive Animals, 12.5 per cent interest on value of stock; Labor, cruzeiro expenditure (imputed).

[c] Land, 12.5 per cent interest on its cruzeiro value; Buildings, 12.5 per cent interest plus 7 per cent depreciation on its cruzeiro value; Farm Machinery and Work Animals, 12.5 per cent interest plus 15 per cent depreciation on their cruzeiro value; Cash Operating Expenses, actual cruzeiro expenditure; Productive Animals, 12.5 per cent interest on cruzeiro value of stock; Labor, cruzeiro expenditure (imputed).

TABLE 5

SUMMARY OF AGRICULTURAL INPUT INDEXES "SET A"
FOR BRAZIL, BRAZIL (ADJ.),
MINAS GERAIS, AND SAO PAULO [a]
1940 PRICE WEIGHTS (1940=100.00)

Year	*Brazil*	*Brazil [b] (adj.)*	*Minas Gerais*	*Sao Paulo*
1940	100.00	100.00	100.00	100.00
1941	101.31	101.72	107.87	104.04
1942	100.84	101.43	106.90	99.58
1943	104.09	104.51	109.47	106.34
1944	106.79	107.21	110.66	111.89
1945	108.16	109.43	105.92	113.49
1946	109.67	110.60	107.97	113.83
1947	110.86	111.84	108.44	112.10
1948	112.23	113.43	110.19	109.77
1949	114.58	115.63	112.88	110.61
1950	116.79	117.64	113.60	113.76
1951	117.68	118.74	114.95	112.18
1952	120.40	121.60	115.00	116.06
1953	122.54	123.61	117.80	114.26
1954	126.23	127.32	120.87	115.81
1955	129.29	130.19	123.00	116.72

[a] Source of original basic data from which the indexes were computed is mainly various issues of IBGE, *Anuarios Estatisticos*.

The indexes of physical input into agriculture were constructed using 1940 value weights for the various factor inputs (See Table 4 above).

[b] Brazil excluding Minas Gerais.

TABLE 6

SUMMARY OF AGRICULTURAL INPUT INDEXES "SET B", FOR BRAZIL, BRAZIL (ADJ.), MINAS GERAIS, AND SAO PAULO [a]

1950 PRICE WEIGHTS (1944=100.00)

Year	*Brazil*	*Brazil [b] (adj.)*	*Minas Gerais*	*Sao Paulo*
1944	100.00	100.00	100.00	100.00
1945	101.50	102.52	96.01	101.68
1946	103.06	103.66	98.06	101.95
1947	104.34	104.96	98.63	100.43
1948	106.04	106.78	100.42	98.27
1949	108.72	109.24	102.96	100.07
1950	111.20	111.79	103.54	103.54
1951	112.02	112.49	104.65	101.63
1952	115.08	115.72	104.79	105.46
1953	117.35	117.71	107.24	103.49
1954	121.59	121.85	109.99	105.14
1955	124.98	125.05	111.98	105.99

[a] Source of orignal basic data from which the indexes were computed is mainly various issues of IBGE, *Anuarios Estatisticos*.

The indexes of physical input into agriculture were constructed using 1950 value weights for the various factor inputs (See Table 4 above).

[b] Brazil excluding Minas Gerais.

TABLE 7

SUMMARY OF AGRICULTURAL INPUT INDEXES "SET C", FOR BRAZIL, MINAS GERAIS, AND SAO PAULO [a] 1940 PRICE WEIGHTS (1940=100.00)

Year	*Brazil*	*Minas Gerais*	*Sao Paulo*
1940	100.00	100.00	100.00
1941	101.33	108.04	104.11
1942	100.81	107.04	99.54
1943	104.11	109.64	106.43
1944	106.85	110.85	112.06
1945	108.23	105.99	113.67
1946	109.74	108.08	114.00
1947	110.94	108.54	112.23
1948	112.32	110.29	108.84
1949	114.68	113.01	110.72
1950	116.93	113.74	113.93
1951	117.82	115.12	112.31
1952	120.58	115.17	116.24
1953	122.74	118.02	114.39
1954	126.48	121.14	115.97
1955	129.56	123.29	116.88

[a] Source of original basic data from which the indexes were computed is mainly various issues of IBGE, *Anuarios Estatisticos*.

The indexes of physical input into agriculture were constructed using 1940 value weights for the various factor inputs (See Table 4 above).

TABLE 8

SUMMARY OF AGRICULTURAL OUTPUT/INPUT RATIOS (THREE YEAR MOVING AVERAGES), FOR BRAZIL, BRAZIL (ADJ.), MINAS GERAIS, AND SAO PAULO [a] (1940=1,0000)

Year	*Brazil*	*Brazil [b] (adj.)*	*Minas Gerais*	*Sao Paulo*
1941	1.0238	1.0324	.9291	1.0597
1942	1.0378	1.0499	.9010	1.1072
1943	1.0278	1.0322	.9328	1.0703
1944	1.0216	1.0273	.9334	1.0143
1945	1.0293	1.0298	.9817	.9696
1946	1.0299	1.0343	.9708	.9458
1947	1.0526	1.0467	1.0509	.9734
1948	1.0662	1.0641	1.0413	.9633
1949	1.0881	1.0876	1.0581	.9760
1950	1.1015	1.1089	1.0317	1.0189
1951	1.1243	1.1388	1.0229	1.0707
1952	1.1315	1.1487	1.0158	1.0824
1953	1.1566	1.1840	.9908	1.0682
1954	1.1722	1.1955	1.0385	1.0628

[a] These figures are the ratio of the agricultural output indexes of Table 2 to the agricultural input indexes of Table 5 (the latter converted to a three year moving average).

[b] Brazil excluding Minas Gerais.

TABLE 9

SUMMARY OF AGRICULTURAL OUTPUT/INPUT RATIOS (THREE YEAR MOVING AVERAGES), FOR BRAZIL BRAZIL (ADJ.), MINAS GERAIS, AND SAO PAULO [a]

(1944=1.0000)

Year	*Brazil*		*Minas Gerais*	*Sao Paulo*
1945	1.0045	1.0012	1.0304	.9867
1946	1.0133	1.0110	1.0418	.9878
1947	1.0429	1.0363	1.1012	1.0562
1948	1.0603	1.0584	1.0966	1.0744
1949	1.0802	1.0828	1.0980	1.0959
1950	1.0872	1.0963	1.0803	1.1056
1951	1.1028	1.1209	1.0568	1.1366
1952	1.1061	1.1250	1.0682	1.1393
1953	1.1165	1.1439	1.0457	1.1283
1954	1.1350	1.1589	1.1043	1.1252

[a] These figures are the ratio of the agricultural output indexes of Table 3 to the agricultural input indexes of Table 4 (the latter converted to a three year moving average).

[b] Brazil excluding Minas Gerais.

TABLE 10

SUMMARY OF AGRICULTURAL OUTPUT/INPUT RATIOS "SET C", BRAZIL, BRAZIL (ADJ.), MINAS GERAIS, AND SAO PAULO [a]

(1940=1.0000)

(*Not* A THREE YEAR MOVING)

Year	*Brazil*	*Minas Gerais*	*Sao Paulo*
1940	1.0000	1.0000	1.0000
1941	1.0610	.8808	1.1178
1942	1.0104	.9039	1.0609
1943	1.0417	.9143	1.1416
1944	1.0308	.9760	1.0064
1945	.9908	.9060	.8911
1946	1.0643	1.0598	1.0068
1947	1.0327	.9440	.9356
1948	1.0584	1.1455	.9834
1949	1.1048	1.0312	.9770
1950	1.0977	.9942	.9734
1951	1.0980	1.0658	1.1025
1952	1.1728	1.0045	1.1316
1953	1.1189	.9724	1.0089
1954	1.1724	.9901	1.0596
1955	1.2186	1.1461	1.1157

[a] These figures are the ratio of the agricultural output indexes of Table 2 (non-moving) to Table 7.

TABLE 11

SUMMARY OF REGRESSIONS OF AGRICULTURAL OUTPUT AND OUTPUT/INPUT INDEXES FOR BRAZIL, BRAZIL (ADJ.), MINAS GERAIS, AND SAO PAULO [a]

YEARS OUTPUT	N	b	s_b	t_b	$s^2_{y.x}$
Brazil:—					
1941-1945	14	3.3800	.1802	18.7878	7.3902
1945-1954	10	3.8892	.1002	38.8050	.8286
Brazil (adj.):—					
1941-1954	14	3.6260	.2292	15.8341	11.9533
1945-1954	10	4.3152	.0976	44.2035	.7863
Minas Gerais:—					
1941-1954	14	2.0466	.2040	10.0322	9.4676
1945-1954	10	1.6583	.3302	5.0221	8.9968
1948-1954[b]	7	— .0057	.9614	.0059[c]	25.8828
Sao Paulo:—					
1945-1954	10	2.3356	.2227	10.4886	.9322
OUTPUT/INPUT					
Brazil:—					
1941-1954	14	1.1950	.1175	10.1719	3.1401
1945-1954	10	1.4227	.0924	15.3932	.7048
Brazil (Adj.):—					
1941-1954	14	1.3181	.1674	7.8740	6.3734
1945-1954	10	1.8146	.0718	25.2730	.4256
Minas Gerais:—					
1941-1954	14	.9420	.2348	4.0110	12.5466
1945-1954	10	.2335	.3110	.7508[c]	7.9800
1948-1954[b]	7	—1.4475	.8886	1.6290[d]	22.1103
Sao Paulo:—					
1945-1954	10	1.7223	.2809	6.1314	6.5074

[a] The form of the regression is $I = |+BT$, where "I" = index and "T" = year or time period.

Three-year moving indexes were used except where noted. The 1941-1954 series are 1940 price weights; the 1945-1954 series, 1950 price weights. The 1941-1954 series for Sao Paulo were not computed because of its large cycle. Output/Input ratios were multiplied by 100 to secure indexes for the regressions.

[b] Non-moving, 1950 price weights (This period was needed in connection with the broader study. See Wharton, *op. cit.*, Chapter IV).

[c] Not significant.

[d] Significant at the 8.5 per cent level.

TABLE 12

COMPARISON OF VARIOUS YEARLY AGRICULTURAL OUTPUT INDEXES FOR BRAZIL

Year	Present Study [a]	ECLA [b]	IBGE [c]	FAS [d]
1940	100.0	100.0	100.0	
1941	107.5	105.9	105.9	
1942	101.9	99.2	99.4	
1943	108.5	103.9	110.9	
1944	110.1	104.2	111.2	
1945	107.2	103.2	105.3	
1946	116.8	113.5	116.3	
1947	114.6	114.0	116.0	
1948	118.9	120.0	120.2	
1949	126.7	126.4	127.4	
1950	128.4	132.2	132.6	123
1951	129.4	132.0	129.8	130
1952	141.4	138.3	138.8	128
1953	137.3	138.4	138.7	133
1954	148.3	—	144.1	142
1955	157.9	—	162.7	143

[a] The 1940 price weight series (non-moving) see Table 2.

[b] ECLA, *Economic Development of Brazil*, p. 75 (1939=100, using a Laspeyres formula).

[c] IBGE, *Anuario Estatistico do Brasil, 1956*, p. 104 (1948=100, using a Paasche formula), Nineteen crops.

[d] Foreign Agricultural Service, UU. S. Department of Agriculture, made available privately to Dr. T. W. Schultz. (1935-39=100). These series were for crop years and could not be converted to 1940=100 base. Twenty-one crops plus beef, pork, mutton, and wool.

TABLE 13

COMPARISON OF AGRICULTURAL OUTPUT INDEXES, 1940 PRICE WEIGHTS WITH 1950 PRICE WEIGHTS, FOR BRAZIL, BRAZIL (ADJ.), MINAS GERAIS, AND SAO PAULO [a]

Year	Brazil		Brazil (adj.)		Minas Gerais		Sao Paulo	
	1940 weights	1950 weights	1940 weights	1950 weights	1940 weights	1950 weights	1940 weights	1950 weights
1944	100.000	100.000	100.000	100.000	100.000	100.000	100.000	100.000
1945	97.362	98.656	98.915	99.276	88.751	95.407	89.817	92.501
1946	106.042	107.353	106.975	107.304	105.863	107.612	101.773	107.078
1947	104.016	107.095	105.696	108.062	94.699	102.024	93.106	100.773
1948	107.943	112.478	106.350	111.486	116.774	117.679	94.912	109.55G
1949	115.042	118.922	116.367	120.326	107.702	111.552	95.924	110.571
1950	116.540	120.772	118.706	123.292	104.520	107.549	98.337	110.584
1951	117.461	121.173	118.190	121.950	113.404	117.098	109.794	116.230
1952	128.389	131.264	132.260	136.053	106.921	106.138	116.637	126.368
1953	124.686	128.635	128.044	131.284	106.066	114.735	102.329	111.354
1954	134.640	135.303	138.928	138.987	110.860	115.970	108.958	116.782
1955	143.246	149.522	145.642	152.653	130.606	133.093	115.627	125.984

[a] The 1940 price weight series originally appeared with (1940=100) but here it has been converted to (1944=100) to facilitate comparisons.

TABLE 14

COMPARISON OF OUTPUT/INPUT RATIOS
FOR BRAZILIAN AGRICULTURAL PRODUCTION

Year	Moore [1]	Present Study Set A	Present Study Set C
1927	1.00		
1932	1.11		
1937	1.21		
1940		1.00	1.00
1941		1.06	1.06
1942	1.19	1.01	1.01
1943		1.04	1.04
1944		1.03	1.03
1945		.99	.99
1946		1.07	1.06
1947	1.22	1.03	1.03
1948		1.06	1.06
1949		1.11	1.10
1950		1.10	1.10
1951		1.10	1.10
1952		1.17	1.17
1953		1.12	1.11
1954		1.17	1.17
1955		1.22	1.22

[1] Moore, *op. cit.*, p. 345. (1925-29=100).

Government Documents

History of the Central American Abaca Program*

Abaca, or "Manila hemp," is considered the best natural fiber available for making strong and durable rope. The use of this fiber was established in this country about 1820. Since then, "Manila rope" has become standard equipment on ships. Because of its qualities, Manila rope is also used in industry and on farms. For these reasons, the Government has classified abaca as a strategic commodity and has, since 1942, maintained programs whereby adequate supplies thereof will be available at all times in the event of an emergency.

Abaca cannot be grown in the United States. The plant requires a tropical climate, with evenly balanced rainfall. It prefers the lighter alluvial soils such as sandy loams, sandy clay loams, and light textured clay loams. For centuries it was felt that the plant could be grown only in the Philippines.

Origin of Project. The Government's abaca program began in 1942 with the Japanese occupation of the Philippines at the start of World War II. Up to that time, our country was completely dependent upon the Philippines for its supplies of abaca. The Japanese occupation choked off this supply during this most crucial period, at which time our country had less than a year's supply on hand or in the pipeline. This would have been disastrous except for the foresight of the Department of Agriculture, specifically that of the late Dr. Harry Edwards, an agronomist with the Department, and the interest and know-how of the United Fruit Co.

The situation which came about at Pearl Harbor was actually foreseen by Dr. Edwards as early as 1923. Amid many frustrations, Edwards finally convinced the Government and industry that a stock of this vital commodity should be available in this hemisphere. With the help of Henry Peabody and Charles Harvey, two American-born abaca plan-

* During the hearings on the Independent Offices Appropriations for 1960, Congressman Thomas suggested that there be provided for the record a short history of the abaca fiber program. General Services Administration submitted the paper which is here reprinted. *Hearings before the Subcommittee of the Committee on Appropriations,* House of Representatives, 86th Congress, First Session, pp. 1414-1417.

tation operators in the Philippines, Edwards finally managed to land 1,438 seed pieces at the United Fruit Co., nursery in Panama. From these pieces was made a field planting of 1 acre. Four years later, this acre had been expanded to 2,000 acres of cultivations.

The United Fruit Co., was interested in this crop from the standpoint of commercial development and after experimenting with the hand methods of cleaning used in the Philippines had decided that to be economically feasible in this hemisphere production would have to be on a mass production basis. It therefore set out in 1939 to develop large-scale processing equipment and was engaged in solving this problem when the war broke out in 1942.

The war changed the outlook and approach to abaca production in the Western Hemisphere from a commercial to a defense basis. Primary emphasis was placed on production of fiber as quickly as possible for use as rope in the waging of the war, rather than on profits.

The program was assigned to the Reconstruction Finance Corporation which was at the time charged with responsibility for producing or acquiring all strategic materials required by wartime contractors. Two days after Pearl Harbor negotiations were concluded with the United Fruit Co. for a production contract which provided for expansion of the 2,000 acres which the company had at Panama. By 1944 the company had under this contract planted approximately 28,000 acres of abaca in Panama, Costa Rica, Guatemala, and Honduras.

In about 2 years, the land had been planted and roads, bridges, canals, railway systems, etc., had been provided in the jungle land used for the new project. Whole villages had to be built for use of the employees. But the major job was the developing of processing machinery which would turn out the volume production required in the war effort. The government acquired the only machine available in the hemisphere—a Krupp-Corona—which was used as a base. With great resourcefulness and much improvisation, processing equipment was successfully designed and set up to handle the production needed, on a highly mechanized basis.

Total cost of the original installations was approximately $11 million, or about $380 per acre. This cost is considered low under the circumstances, and under today's conditions would run between $1,400 and $1,600 per acre.

Abaca production from the Government's Central American projects during World War II and the subsequent rehabilitation period (1942-49) amounted to approximately 136 million pounds at a cost of 21 cents per pound.

Postwar Period. With the end of the war, in accordance with its policy that the Government should disengage itself from nonessential business, an attempt was made to dispose of the Central American abaca enterprise along with the many other similar programs which had been undertaken during the war. Though the Government was successful in disposing of the bulk of the other enterprises to industry, this was not possible in respect to the abaca projects since the program held no attraction from the standpoint of profit. Moreover, an abaca venture requires investment of relatively large sums of money for long periods of time before return of investment commences, and the investment is subjected to many interim hazards such as flood, drought, disease, pests, etc.

Even though the war was over, fiber was still considered of critical importance, and in 1946 the Civilian Production Administration directed that abaca be stockpiled. As a result, it became necessary for the Government, because of the lack of interest by private industry, to continue abaca production after the war. New legislation was required and was enacted into law on August 10, 1950, in the form of the Abaca Production Act of 1950 (Public Law 683, 81st Cong.). The bill included these major provisions:

(1) The projects would be continued until March 31, 1960, unless Congress or the President ordered earlier termination.

(2) New acreage could be added provided the total in cultivation would not exceed 50,000 acres.

(3) A revolving fund of $35 million was established to finance the program.

(4) Research could be undertaken to locate the best available abaca land as well as to improve existing crop culture and processing methods.

When the Abaca Production Act of 1950 became law there were approximately 25,000 acres of abaca in the Government's project. Less than 2 weeks after signing the new law, President Truman directed that immediate action be taken to increase the acreage to the full 50,000 acres permitted by the act. This action was taken as a result of the outbreak of the Korean war and the anticipated shortages of fiber.

Soil Surveys. The Government thus embarked upon an expansion program and, as the first step in this direction, asked the Department of Agriculture to send teams of land experts to locate the best lands available in the Western Hemisphere for cultivation of abaca.

Groups of experts from the Department's Bureau of Plant Industry conducted the surveys. They set up headquarters in Turrialba, Costa Rica. These men suffered many privations and inconveniences in this

assignment, since most of the areas investigated were practically jungles. They examined land on foot or muleback, by air and by boat. The surveys took about a year and, in the process, over 200,000 acres of land were cataloged. Suitable lands were found and the Department recommended areas in Nicaragua, Honduras, Costa Rica, and Ecuador.

With the end of the Korean hostilities, and Philippines supplies becoming more plentiful, the President, on April 10, 1953, ordered curtailment of all expansion projects. Therefore, no new projects were added.

The value of the soil surveys was substantial in spite of the fact that the expansion program for which they were undertaken did not develop. In a sense the surveys actually made the expansion unnecessary, because they provided a ready inventory of lands which could produce abaca in about a year and a half after planting.

The Long Term Agricultural Research Program. Very little or no research was undertaken on abaca by the Government during the war. This was due primarily to two things:

(1) Extreme pressure for quick production during the war.

(2) Indecision as to the future of the program when the war ended.

However, by virtue of the specific provision in the law enabling research, the Government immediately established a long-term program, to be headed by experts from the Department of Agriculture. This program was carried on for approximately 7 years at a cost of about $80,000 per year. It developed for the first time on abaca scientific data on crop culture, diseases, and pests. This not only contributed to the general knowledge on the crop, but materially assisted in the reduction of the costs of operation of the Government program. Practically all problem areas in abaca production were explored by these scientists during the program, and complete reports were rendered thereon.

Mechancial Research. The Government also engaged in research aimed at improving the abaca processing equipment. The Armour Research Foundation of the University of Illinois, Institute of Technology of Chicago, was engaged for this purpose. This work was started in early 1951 and lasted about 1 year. It led to many recommendations by Armour for the improvement of the decorticating equipment as well as the development of machinery for the cleaning of abaca waste. Many of the recommendations were adopted; however, many of them were not. Although all of the recommendations were technically sound, some of them were not economically feasible considering the remaining years in which the plantations would continue in operation.

As to abaca waste, Armour recommended a process (Hydrapulper) by which waste could be cleaned and landed in New York at a price of 4 to 6 cents per pound. Again, this process was not adopted in view of the competition from related materials and the lack of early recovery of investment. However, this project would be feasible at any time in which a shortage of competitive materials developed or at such time as the cost of competitive materials rose beyond the related costs of producing waste in Central America.

Postwar Operating Experience. Production from Central American abaca projects under the authority of the Abaca Production Act of 1950 has amounted to approximately 210 million pounds of fiber at a cost of around 24½ cents per pound. The bulk of this fiber has been placed into the Government stockpile. Whereas initially industry had reservations concerning the quality of this fiber, the trade now recognizes Central American fiber on equal terms with Philippine fiber and, in fact, superior thereto in some respects.

The Government program has provided the following benefits:

(1) It provided fiber during World War II and Korea, which otherwise would not have been available.

(2) It provided a stabilizing influence upon the market in the immediate postwar period when supplies from the Philippines were short.

(3) It has complemented the Government stockpile program, providing a ready source of expansion to wartime requirements, thereby making unnecessary the stockpiling of the full wartime requirements. This has resulted in savings of many millions of dollars in stockpile costs.

After extensive study of the supply situation, and in consideration of the reduction of emergency requirements from a 5- to a 3-year basis, the Office of Civil and Defense Mobilization decided, on July 21, 1958, that the Central American abaca program should not be continued beyond the expiration date set in the act—March 31, 1960.

OCDM directed that the projects be liquidated, but that an attempt be first made to dispose of the plantations as a going concern, so that the source of supply would remain in this hemisphere.

The General Services Administration has attempted to dispose of these plantations to private industry for continuation as abaca-producing enterprises. However, these efforts have been unsuccessful. Industry has remained uninterested because of the poor profit potential. Philippine laws presently prohibit the exportation of abaca planting material; therefore, when the Government cultivations are liquidated the major source of planting material available to this hemisphere will be eliminated.

GSA has begun "butcher harvest" of the cultivations, under which the plantings will be cut down and processed for the last time. It is estimated that approximately 18 million pounds of fiber will be recovered in this process. All of this fiber will be delivered to the stockpile. Butcher harvesting will be completed by the end of this calendar year. Sale of the remaining assets will thereafter be undertaken. We hope to be able to dispose of the assets in fiscal year 1960 and maximum effort will be made to meet this target date. However, because of the specialized nature of these assets, consummation of these sales may take some time.

Cost of Program. The total cost of the abaca production to the Government is expected to be $20,388,970 of which $9,712,000 was incurred while the program was administered by RFC through fiscal year 1954 and $10,676,970 is expected to result from operation and liquidation under GSA during the fiscal years 1955 through 1960, inclusive.

On Inter-American Policy*

I feel that we will be unable to develop a successful Latin American policy until we have a worthwhile objective in mind. During the twenties we wanted to erase some of the misunderstandings of the past; in the thirties, we had the bright image of continental solidarity to lead us on; and during World War II there were many and pressing reasons for an active and dynamic approach to our relationships with Latin America. In the immediate postwar perior our urgent preoccupation with the problems of other areas led us to forget just where Latin America fitted into our scheme of things while after 1954 the dominance of business and banking thinking let to setting up the objective of making Latin America safe for American private initiative.

The policy naturally flowing from this dominant philosophy was reflected in (1) efforts to get Latin America to follow sound monetary and fiscal policies; (2) the grudging provision of minimum credit facilities for fields in which private capital had no interest; (3) the almost exclusive emphasis on the role of private capital in the economic development process; and (4) demands for a better general atmosphere for private investment. While the pressure of events has caused some softening in this approach, it is still essentially the policy of the present administration.

If these were normal times, I would have little objection to this sound if somewhat narrow and unimaginative approach. But these are not normal times. Against a background of world ideological conflict and social unrest, our policy must be more dynamic and immediate than this. What we need is an affirmative, a promotional approach to economic development plus a sympathetic and realistic understanding of the very real problems which Latin America faces in the production and marketing of raw materials. Experience assures me that such a

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* In January 1959 the Senate Foreign Relations Committee sent letters to a limited number of retired Foreign Service Officers requesting their views on the foreign policy of the United States. Rather than reproduce individual statements in toto, an attempt was made to give the responses focus by arranging excerpts in a topical manner. Reprinted here are two evaluations of our relations with Latin America. Senate Foreign Relations Committee, *Summary of Views of Retired Foreign Service Officers,* prepared pursuant to S. Res. 31, 86th Congress, 1st Session, p. 71-72.

policy could be developed without doing undue violence to reasonable economic principles.

As for objectives we have never had better ones. We have all wondered why the hundreds of millions spent for propaganda and for grant aid have not done a better selling job for us. Perhaps it is because we are too rich, too powerful, and perchance too self-satisfied to sell ourselves and our ideas directly. We might well do better if we had others to bear witness for us. Who would be better qualified—if the old sense of solidarity could be reawakened—than our Latin American neighbors who not only know our good and bad points, but understand the problems of the underdeveloped areas and largely share their aspirations. But influencing the outcome of the cold war is less important than insuring the role that we would want Latin America to play if there ever should be a hot war—for in such a case the friendship of our southern neighbors might mean the difference between life and death to our country.

I am likewise of the opinion that, despite their frequent criticism, we have followed fair and friendly policies toward our Latin American neighbors. Our support of the Organization of American States, our abstention from interference in internal matters, and our generous technical and economic assistance should provide ample evidence to these countries of our desire to help them and to cooperate with them. We cannot solve all their problems for them. They have to help themselves, and many of them could make a good start by trying seriously to create a climate more favorable to the investment of private American capital. With respect to their frequent demands for greater financial assistance, I am convinced that one of the most serious disservices we could render would be to make government-to-government grants unaccompanied by stringent controls on the methods of expenditure. The Export-Import Bank, the International Bank, and the Development Loan Fund, plus private capital, should be able to provide all the funds Latin America is capable of employing usefully.